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PROPOSED REFORMS IN THE COMMON AGRICULTURAL POLICY OF THE EUROPEAN ECONOMIC COMMUNITY

HEARING

BEFORE THE

SUBCOMMITTEE ON
FOREIGN AGRICULTURAL POLICY

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

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PROPOSED REFORMS IN THE COMMON AGRICULTURAL POLICY OF THE EUROPEAN ECONOMIC COMMUNITY

MONDAY, OCTOBER 17, 1983

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:12 p.m., in room 328–A, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Dixon, and Zorinsky.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. Today we hold hearings on reforms in the European Community's common agricultural policy. These reforms were proposed last summer—July 29—by the Commission of the European Communities. While the proposals have not yet been adopted, they are of major interest to those of us who are concerned with U.S. agriculture and agricultural trade.

Some of the justifications for the proposals made by the EC Commission cannot be argued with, and, in fact, echo what we have been telling them for quite some time. These justifications include: First, the EC agricultural sector must become more and more market oriented; second, EC agriculture must concentrate on producing at competitive world prices; third, EC surplus production must be brought under control; and fourth, the EC must cooperate in trade with its competitors to stabilize world prices.

Unfortunately, something seems to have short circuited the relay between these justifications, which are reasonable, and their reform proposals.

These proposals clearly strive to transfer any adjustments resulting from CAP reform away from the European Community countries and toward those countries which export to the Community. These proposals include: First, restricting imports of butter; second, increased import restrictions on grains; third, restricting imports of corn gluten feed and citrus pellets; fourth, additional restrictions on beef imports; fifth, increased restrictions on sheepmeat imports; and sixth, internal taxes on soybean oil and other vegetable oils and fats in order to increase consumption of butter and other oils produced by the EC.

In short, these proposals would not reform the CAP to be more compatible with free-trade principles; they would instead retrogress the CAP to be more compatible with the closed economy world of one or two or three centuries ago.

These proposals constitute a set of have-your-cake-and-eat-it-too ideas which violate certain concessions negotiated under the GATT, and add insult to injury by maintaining CAP export subsidies while simultaneously closing off the EC market to exporting countries. For the United States alone, these proposals affect some $700 million—1982—in exports of corn gluten feed and citrus pellets to the EC as well as $4 billion—1982—in exports of soybeans to the EC. This amounts to over 50 percent of U.S. agricultural exports to the Community and over 10 percent—indeed about 15 percent—of our total agricultural exports to the world.

It is no surprise that agricultural groups are highly concerned about these proposals. It is the purpose of this hearing to enable these groups to critique these proposals in detail.

Senator Dixon, do you have an opening statement?

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Senator DIXON. Thank you, Mr. Chairman. I want to express my appreciation to you for holding this hearing. Mr. Chairman, on September 29, I introduced, along with 33 of my colleagues, Senate Resolution 233. This resolution expresses the sense of the Senate concerning the adverse effect on U.S. agricultural exports of proposals to modify the common agricultural policy of the European Economic Community.

I would hope that a resolution of this type would not be necessary, Mr. Chairman, but with the proposals to modify the common agricultural policy now being considered by the European Economic Community, it seems there is no choice. Decades of cooperation are now being challenged by the proposed tax on vegetable oils and fats, and the import restrictions on nongrain feed ingredients.

The resolution is straightforward and to the point. First it asks the President to communicate with the Council of European Community ministers urging them to reject the proposals of the Commission which seek to shift to other countries the burden of disposing of EC agricultural surpluses.

Second, the resolution asks the President to vigorously oppose any of the proposed CAP modifications that would adversely affect our access of agricultural exports to the EC.

This resolution also expresses the sense of the Senate that strong measures should be implemented immediately to protect the legitimate trade interests of the United States if the proposed CAP modifications are adopted.

This resolution, Mr. Chairman, is supported by the American Soybean Association, the National Corn Growers Association, the American Farm Bureau Federation, the Corn Refiners Association, the National Soybean Processors Association, A. E. Staley Manufacturing Co., Archer Daniel Midland, Cargill, Inc., EPIC, the Fertilizer Institute, the National Council of Farmer Cooperatives, the

National Governors Association, Florida Citrus Mutual, and the National Sunflower Association.

Mr. Chairman, it is imperative that the U.S. Senate be on record objecting to the potential threat by the Commission of the European Economic Community that would further restrict our access to the EC market.

Finally, I look forward to the testimony today. I hope that after this hearing it is clearly understood that there is full cooperation by the Senate, the administration, and the agricultural sector on this issue.

I ask, Mr. Chairman, that the full text of my remarks be included in the record.[1]

Senator BOSCHWITZ. Without objection.

I compliment the Senator for the resolution of which I am cosponsor.

Senator DIXON. My distinguished colleague, Mr. Zorinsky, who is here, is also a cosponsor, Mr. Chairman.

Senator BOSCHWITZ. Senator Zorinsky, do you have a statement?

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. Yes, I do, Mr. Chairman, thank you. These hearings are illustrative of our frustrations to reach sensible trade accord with the European Common Market. There is a need for rethinking of our agricultural trade policy objectives and the means of achieving them.

Hopefully, these hearings will contribute toward a solution of this obvious need.

It is obvious that what is happening is not in the interest of U.S. agriculture nor our national economic interest. As we banter with the European Common Market over export market access, we are faced with what we are informed are nonnegotiable trade issues. The result has been a battle of national treasuries, theirs against ours and ours against theirs.

It is an economic battle that neither the United States nor the Common Market countries can win, and, therefore, the need for an understanding of the mutual interests of both sides and an intelligent procedure for resolving our differences is critical.

It's a matter of commonsense to realize that the United States and its trading partners would be better off if we produced and distributed more goods and services in the most economical manner possible, and that the constituencies of the European Economic Community and the other nations where we have a trade relationship, have common aspirations, needs, and vested interests similar to those of our own citizens.

In terms of international trade relationships, this means that each country should produce what it can most effectively produce, trading the excess for the excess of goods produced more efficiently by other countries.

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[1] See p. 40 for the prepared statement of Senator Dixon.

This is the premise underlying the economic strength of our Nation's 50 States where goods move freely with a highly mobile labor force to reinforce our common U.S. market.

When the European Economic Community was begun, with great difficulty, there was seemingly an attempt on the part of the nations involved to develop an economic system with the strength of our own Nation.

In the existing way of conducting trade we have a network of human institutions such as laws, customs, investment in plant, and so forth. Every nation has attempted to solve its own economic problems in its own way. In agriculture the aim has been to raise the relatively low income of family farms.

This continues to be an illusory search as we attempt to save the family farm agriculture in the United States: And yet our national leaders, through Democratic and Republican administrations alike, continue to voice their support for the family farm, and Congress with periodic regulatory statutorily underpins the proclamations of our leaders.

Income parity with the nonfarm population remains the goal of the U.S. farmers, and is also a frequently mentioned goal of farm people in the free nations. As in the United States, basic legislation has been enacted by many nations toward this end.

Our farmers have a direct and important interest in the terms under which imports are allowed to enter the domestic market. For farmers, the advantages gained from the exportation of farm products, although of great importance as we have relied on exports for a bigger share of family farm income, are in general diffuse and indirect while the competitive nature of supplementary imports is direct and immediate.

It is not surprising, therefore, that farmers and ranchers take the attitude that they do toward supplementary imports of agricultural commodities or that they resent obstacles to export outlets and that they have come to depend upon for an increasing share of their income. They understand that markets and other institutions related to agricultural trade are made by man and can be changed by man.

We hear a great deal these days about how a free domestic agricultural economy would promote trade and about the need to reduce the differences between domestic agricultural prices and world prices.

Farmers are becoming increasingly aware that this kind of logic is not a true and sincere representation of agricultural interests nor does it originate with the grassroots section of agriculture faced with production costs in excess of market returns.

The fact is that there is no such thing as an automatically operating free market system. Any market is free only within the framework of law, property rights, wealth distribution, trade practices, and other rules of the game, and, as is clear from testimony that will be presented here today, each nation plays by a different set of rules.

In our present way of doing things, trade is best carried on where there is a well-defined set of rules in operation. The meaning of this to me is clear. It means that the most productive means of promoting greater international economic cooperation is not a

futile attempt to establish some kind of mid-Victorian dog-eat-dog competitive market equilibrium but rather through the bold imaginative conscious building of workable international economic institutions.

What we must have is neither this Victorian free-market internationalism nor monumental national isolationism. The correct answer lies in conscious international economic planning and negotiation.

An intelligent international approach to the problem rules out reliance on a so-called free international market approach where noncompetitive practices are commonplace and where trade barriers develop when communication breaks down.

Since what we are doing is not working, I strongly recommend to our trade negotiators that they try a new and different approach.

The procedures I suggest are negotiated publicly directed answers for reaching closer international economic integration. For example, I am convinced that the United States calling for tariff elimination as such, through unilateral action, is neither a sensible nor a politically feasible approach.

The Reciprocal Trade Agreements Act, the General Agreement on Tariffs and Trade, and the Organization for Economic Cooperation and Development are negotiational types of consciously directed international economic cooperation that should be encouraged.

I do not believe that the U.S. farmers who produce for export or who produce commodities that must compete with imports should be asked to bear the full cost respecting this production of an intelligent U.S. policy of economic cooperation.

The benefits of better international economic cooperation accrue to the benefit of the entire Nation and the temporary costs involved should be borne by all the people. This means that in the case of both exports and imports of farm produce, programs and policies should be established, as they have been in the case of the International Wheat Agreement and the Sugar Act program, to spread the cost to all the people instead of putting all of them directly on the small numbers of producers that are involved.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. The Senator from Nebraska's was a long and detailed statement together with recommendations, and we look forward to hearing from our witnesses their response.

If we can, we would like the first three persons listed to come forward as a panel, and they include the Honorable Dan Amstutz, Under Secretary for International Affairs and Commodity Programs; Ambassador Bob Lighthizer, Deputy U.S. Trade Representative; the Honorable Richard McCormack, Assistant Secretary for Economic and Business Affairs at the Department of State, and he is accompanied, I understand, by Dennis Lamb, a Deputy Assistant Secretary for Trade and Commercial Affairs.

If you gentlemen would come up here, we will proceed.

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STATEMENT OF HON. DANIEL AMSTUTZ, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Mr. AMSTUTZ. Mr. Chairman, and members of the subcommittee, I am pleased to be with you today to discuss the proposals that have been announced by the Commission of the European Community to reform the EC common agricultural policy.

Senator BOSCHWITZ. Pardon me, Mr. Amstutz, would you also comment, as you go along, about the article in today's Wall Street Journal and your conversations with the press?

Mr. AMSTUTZ. I will indeed. I have not read the article.

Senator DIXON. I have a copy of the article.

Mr. AMSTUTZ. The most important Commission proposals are the introduction of a quota system for milk, a "prudent and in some cases more restrictive" price policy, possibly including the fixing of common prices for a longer period, a review of existing direct aids and premiums, the automatic dismantling of MCA's within a fixed period of time——

Senator BOSCHWITZ. What's an MCA?

Mr. AMSTUTZ. Senator, this relates to currency adjustments within the member states.

The imposition of a consumption tax on fats and oils, restrictions on the import of nongrain feed ingredients, such as corn gluten feed and citrus pellets, and a so-called coordinated export strategy.

The EC is the leading market for U.S. agricultural products and at the same time our leading competitor in the world market. So the course of EC agriculture is of prime importance to us.

We welcome the Community's intention to reform the CAP, which has relied on high protective support prices which stimulate production and which uses subsidies to export any surpluses onto the world market.

We are particularly disturbed by two measures in the reform package. One of these would impose a consumption tax on fats and oils, all fats and oils except butter. The other would restrict imports of nongrain feed ingredients, such as corn gluten feed and citrus pellets.

I returned Saturday from 2 weeks in Europe during which I discussed the U.S. opposition to those two measures with officials of the EC Commission and five member states—France, West Germany, the United Kingdom, the Netherlands, and Belgium.

A tax on fats and oils and restrictions on access for corn gluten feed and citrus pellets would strike at U.S. exports to the Community that were valued at nearly $5 billion last year. That breaks down to an estimated 4.2 billion dollars' worth of oil seeds and products that would be affected directly or indirectly, and around $700 million on exports of nongrain feed ingredients.

The total value of these products represents about 60 percent of total U.S. agricultural exports to the EC and over 10 percent of U.S. farm exports, farm product exports, to the world.

The EC's tariffs bindings on oil seeds and oil seed products and nongrain feed ingredients were negotiated by the United States in earlier trade rounds and paid for with United States trade concessions. We are not prepared to give them up.

If these proposals were to be accepted, EC restrictions on agricultural imports would then cover virtually all major products. Such a move, unilaterally imposed by the EC, would leave us no choice but to act without delay to defend our legitimate trade interests. Admittedly, the immediate impact of the proposed oils tax on U.S. exports of oil seeds and products would be relatively minor, felt in reduced demand.

But by establishing a principle of unilaterally abrogating GATT agreements, it would give the EC a foot in the door to add restriction on restriction in the years ahead with possible devastating results for U.S. exports.

Under the impact of the CAP, as it has been administered through the years, the EC has become a surplus producer of wheat, barley, sugar, butter, powdered milk, cheese, beef, poultry, and eggs. As a result, large-scale subsidies to dispose of surpluses have become a logical extension of the CAP, and the EC has become the world's No. 1 exporter of sugar, poultry, eggs, and dairy products, and is challenging Argentina as No. 2 in beef.

So today, little more than 20 years after the CAP was put in place, these policies are costing U.S. agriculture $6 billion per year in displaced trade, and this injury could reach $8 billion by 1987.

The United States encourages changes in the way the CAP is administered via emphasizing measures to discourage overproduction. But we oppose EC proposals for change that further restrict imports or subsidize exports, transferring additional EC farm program costs to third countries.

The idea of a fats and oils tax has been broached on a regular basis since the birth of the CAP. The idea of restricting imports of nongrain feed ingredients dates back several years.

We have opposed those two proposals from the day they surfaced, and we continue to do so.

The United States rejects the idea that we or any other third country should share a further burden of farm program adjustments in the Community whether by a fats and oils tax, corn gluten restrictions, or any other measures.

[Messrs. Amstutz and Lighthizer briefly confer.]

Mr. AMSTUTZ. He suggested I might like to read the article.

Senator BOSCHWITZ. Please do.

Mr. LIGHTHIZER. I will just speak for a minute.

Senator BOSCHWITZ. We are certainly agreeable to that. We welcome you, Ambassador Lighthizer, and congratulate you on the agreement that you negotiated not many months ago, which I understand has been implemented and continues to be implemented on a regular basis.

STATEMENT OF AMBASSADOR ROBERT E. LIGHTHIZER, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. LIGHTHIZER. Thank you very much, Senator. Let me just ask first if my prepared statement can be made a part of the record.[1]

Senator BOSCHWITZ. Without objection.

[1] See p. 42 for the prepared statement of Ambassador Lighthizer.

Mr. LIGHTHIZER. I would like to really underscore a few of the points that Dan made, and those that the members of the subcommittee have made in their opening remarks, and then be available for questions.

Senator BOSCHWITZ. May I ask, were you together with Secretary Amstutz in this recent trip?

Mr. LIGHTHIZER. I was not, Senator, but Ambassador Brock and I were in Europe last week and met with both Mr. Hafercamp, who is the Trade Minister for the Community, and Madame Cresson who is the Trade Minister for France, and gave precisely the same message that Dan gave in other capitals.

First, let me thank you and Senator Dixon and other members of this subcommittee, and indeed the Agriculture Committee, for your leadership on this issue. I agree with what you said and with what Dan said, and that is that the common agricultural policy of the Community is in need of reform. We certainly have believed that for some time. Now it appears that the end of their resources is likely to be met by the end of this calendar year, and that without some change in 1984 the Community's budget will be very much in deficit. The cause of the deficit, of course, will be the common agricultural policy which accounts for, as I understand it, about 65 percent of the overall budget of the Community.

What we resent, as you have all said, is the shift of the burden of this adjustment from Europe where it belongs to the United States. My own sense is that this is really the international equivalent of Senator Long's saying "don't tax you, don't tax me, tax the man who is behind the tree." The secret is to find a way for someone else to pay for your own excesses. This is what we object to.

As Dan said, the bindings on fats and oils were part of the Dillon round which we negotiated. The United States paid for those concessions, and cannot, in my opinion and in the opinion of this Government, stand by and allow them to be altered.

We believe that if these proposals go through—and I should say that we really don't have all the details on it, but if they go through in the form that we believe they are headed in, this Government has to retaliate.

Let me just spend a moment and tell you what we are doing: we are working within our agencies to try to determine what our specific response would be, depending on the actual form of the eventual Community action. We have had our ambassadors go to all the capitals and make a very strong protest to this action. We have had high-level contacts by a number of members of the Cabinet with their counterparts on this issue. They include, of course, the Secretary of Agriculture, but also the Secretary of State at the United Nations, in the General Assembly opening, Secretary Regan during the IMF talks here, and, as I said a few minutes ago, Ambassador Brock in his recent contacts and in his discussions with his counterparts.

Senator BOSCHWITZ. Secretary Regan mostly speaks about deficits, but I am glad he is involved in this, also.

Mr. LIGHTHIZER. Well, I can assure you, Senator, that he is, and that he is in agreement with you on this issue.

Senator BOSCHWITZ. But not on deficits.

Mr. LIGHTHIZER. If not on other issues. The final thing that I would say is that these hearings are very important because in spite of all the contacts, we have a sense that the Community and member states may not yet have the message. They may not realize the extent and depth of feelings that exist in this country, in the Senate certainly and in the Government on this issue.

So it's very important that this message get out, and we certainly applaud you and the subcommittee for your efforts.

Senator DIXON. I wonder if we could clarify two points now, Mr. Chairman, that would help me follow the balance of the testimony.

Senator BOSCHWITZ. Certainly.

Senator DIXON. In a simplistic way, I wonder if the Ambassador would set forth the manner in which our country paid for these concessions in the Dillon round. Could you give me some of the concessions that we made? When you characterized it as being a situation in which we paid for the concessions in the Dillon round, could you at least simplistically suggest what we did at that time?

Mr. LIGHTHIZER. Senator, needless to say, the Dillon round predated my tenure at USTR.

Senator DIXON. Well, I thought if either you or the Secretary know.

Mr. LIGHTHIZER. That is a good question. My staff, indicates the answer is that during the Dillon round a large number of concessions were made, by both the United States and the EC. The concessions on soybeans and soybean meal formed part of the entire package rather than a quid pro quo for specific concessions made by the United States.

Senator BOSCHWITZ. When you speak of the Dillon round, are you referring to the so-called Treaty of Rome that put various bindings on a number of products with the exception of oil seeds and corn gluten?

Mr. LIGHTHIZER. Those two events—the Dillon round and the Treaty of Rome—were just about contemporaneous. What was the year?

Senator BOSCHWITZ. Early sixties?

Mr. LIGHTHIZER. I believe the Dillon round was about 1962, and the Treaty of Rome I believe was at approximately the same time.

VOICE. 1958.

Mr. LIGHTHIZER. 1958, so it was about 4 years after the Treaty of Rome.

Senator BOSCHWITZ. But essentially what happened is that there were no bindings established on certain items that indeed weren't much in the trade picture at that time, is that correct? And as these items have developed, they have sought to expand the various tariffs or the levy system to include these new items as well?

Senator DIXON. If I could only pursue it in this way—I realize it's some years ago—and I ask this to obtain the facts, and that is why I would appreciate very much, Mr. Ambassador, if your good offices could make available to me at your convenience, first of all, the nature of that round of discussions, and, second, in a simplistic way, not in exquisite detail, exactly what you mean when you say the United States paid for the concessions in the Dillon round. It would help me in connection with what I anticipate in the course of the debate on the resolution that we now have pending.

Mr. LIGHTHIZER. Generally, what was gained and what we gave up is, I presume, what you want.

Senator DIXON. Yes.

Mr. LIGHTHIZER. We will supply that.

Senator DIXON. Yes; the quid pro quo involved in the accommodation that took place.

Mr. LIGHTHIZER. We will supply that for the record, Senator.

Senator DIXON. I appreciate that.

[The following information was subsequently supplied by Mr. Lighthizer:]

The EC granted concessions on soybeans, soybean meal, and the tariff category containing citrus pellets in the Dillon round (1962). Concessions on various other non-grain feed ingredients, including corn gluten feed, were granted in the Kennedy round (1967). Tariff reductions achieved in the first five rounds of negotiations (from 1947 through 1962) were essentially based on a bilateral exchange of concessions. However, it is impossible to impute product-by-product reciprocity, as the value of negotiations with each country was determined on the value of the total package (which included manufactured as well as agricultural items) rather than on a line-by-line basis.

Beginning with the Kennedy round, concessions were made on a still broader scale. Although each country discussed its lists of offers and requests individually with the other participants, the value of the final package reflected offers to all contracting parties. There was no attempt to establish a bilateral balance or specific product reciprocity. The objective of the negotiation was to obtain sufficient benefits from the concessions, both agricultural and industrial, received from other countries to equal the total package of concessions granted by the United States.

For example, some of the agricultural items of interest to the EC on which the U.S. made concessions in the Kennedy round are various vegetable and grass seeds, selected fresh and dried fruits and vegetables, and champagne and vermouth. These concessions were made at the request of the EC, but were not designated as payment for any specific concession by the EC or any other country. When such a concession is withdrawn, compensation is owed to the countries who are principal suppliers, based on the value of the trade at the time of the withdrawal.

Senator BOSCHWITZ. Mr. Secretary.

Mr. MCCORMACK. What I would prefer doing, Mr. Chairman, is simply to insert my full testimony in the record and then read a very brief summary of my testimony here.[1]

Senator BOSCHWITZ. Certainly.

STATEMENT OF HON. RICHARD T. McCORMACK, ASSISTANT SECRETARY FOR ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. MCCORMACK. In our agricultural trade relations with the EC today, we face a severe challenge to the general orientation and aspirations of our agricultural trade policy with the European Community's recent proposals to reform the common agricultural policy.

The stakes are large. The EC is the U.S. agriculture's largest export market. At the same time it is our leading competitor in international agricultural trade. Roughly one-fourth of the U.S. farmers' market income depends on this trade, and decisions which Europe makes in the course of its CAP review are of prime importance to us.

Most of the CAP reform proposals are not new. Many of them have been discussed singly or were part of previous abortive CAP

[1] See p. 48 for the prepared statement of Mr. McCormack.

reform proposals. We have expressed our opposition to some of these measures in the past.

Now, as then, we are adamantly and sharply opposed to the proposals that deal primarily with the EC's role in international marketplace: A new export policy, a tax on fats and oils, and a limitation on imports.

Rather than moving toward elimination of trade-distorting practices, we feel we are seeing a consolidation of trends to which we have strongly objected over the years. The Commission's proposals are instructive also for what they do not include. The prices of the main surplus products, including cereals and dairy products, will not be frozen or reduced, much less be allowed to reflect market forces. There is no commitment to insure that the cost of the CAP grows more slowly than the Community budget, and many believe that agricultural spending will grow faster than the budget, even with the proposed reforms. Not surprisingly, support for increasing budgetary revenues is large. What this portends is that the European budgetary problems will not be solved by reforming present policies, but by increasing EC taxes.

As the proposals now stand, and they are bound to be changed during the internal debate now in progress, our fear is that the CAP reform will in fact: First, fail to deal with the fundamental problem of structural overproduction; second, further isolate EC agriculture from world prices and market trends; third, result in higher food prices in Europe; fourth, divert scarce European capital investment from much-needed social, industrial, and technical development; fifth, fail to control soaring CAP costs; and, sixth, guarantee continued surpluses which must be disposed of on the world market through export subsidies.

Thus, the burden of the CAP will rise and continue to be borne by the Community's consumers and by non-EC agricultural producers and exporters, including the United States.

Nevertheless, some of the Commission's proposals are encouraging, if only for the direction they hint at. Concrete results here would address the fundamental issues that concern us, but we have been extremely disappointed by the gap between intentions and result in this area in the past.

The proposals to restrict imports of nongrain feed ingredients and to impose a consumption tax on oils and fats, excluding butter, represent clear threats to our historic role as a supplier to the EC. In return for concessions which the United States made to the EC during the Dillon round of trade negotiations, we received their pledge to permit access to their markets duty-free or at agreed-upon rates of tariffs. The CAP reform measures would impair that pledge, closing off virtually the final avenue for agricultural products to gain unregulated access to the European market. They are clearly inconsistent with pledges made at the Williamsburg summit and elsewhere to avoid protectionism.

We have carried our concerns to the EC on many levels and in many fora. We have made a number of strong and direct formal representations to the EC and to member states through our missions abroad, including ones which Dan did this last week and Bob Lighthizer as well. We have called in EC Embassy officers in Washington to reinforce our message through the diplomatic channels.

During the Secretary's bilateral meetings with European foreign ministers at the recent U.N. General Assembly session, he stressed the potential for serious confrontation, and stressed the need for the Community to act responsibly to avoid conflict. Similar messages have been carried by other U.S. Cabinet officers and by officials of all agencies in their contacts with European decision-makers.

Our efforts have been buttressed and reinforced by others, domestically in the United States and abroad. Our industry and agricultural sector have worked diligently with customers and representatives abroad. We are pleased that the Congress is moving rapidly to support our efforts to assure that European measures do not affect adversely U.S. trade interests.

Senate Resolution 233 and its counterpart in the House of Representatives are helpful in reminding the EC of our determination and of our concerns. Other countries have been vocal as well. Major agricultural exporting countries such as Canada, Australia, and New Zealand have made their concerns known to the EC. The developing countries have added their voices. At a recent meeting of the Food and Agricultural Organization in Rome, representatives of developing country vegetable oil exporters and others bitterly denounced European plans to impose a tax on fats and oils, and urged the member states to reject the Commission's proposals.

In conclusion, I have emphasized here today the need for unity and for a prudent, credible, and firm response to European protectionism and efforts to expand the burden of European agricultural programs to other exporting countries. We must recall that our agricultural trade problems with the EC reflect the fundamentally different agricultural support philosophies which have evolved on either side of the Atlantic over the years.

This dispute will not be solved overnight. It requires continued priority on the foreign policy agenda if further progress is to be made. We must continue to keep our views before the Community and the member states, letting them know that implementation of those measures now on the table could result in a trade war.

We have urged the Community not to take precipitate action. No occasion exists now for us to do so either, at the present time. We look to your help, support, and understanding in this effort.

Thank you very much, Mr. Chairman.

Senator BOSCHWITZ. Thank you very much, Mr. Secretary. Mr. Lamb, do you have any statement?

Mr. LAMB. I have nothing to add, Mr. Chairman.

Senator BOSCHWITZ. Mr. Amstutz.

Mr. AMSTUTZ. Thank you, Mr. Chairman, I have now had a chance to read the Wall Street Journal article. If I may, let me give more than just a response to the article.

Senator DIXON. Can you place that article in the record, Mr. Chairman?

Senator BOSCHWITZ. Yes, certainly.[1]

Mr. AMSTUTZ. At each of my stops, I said that my mission was really threefold. First, to impress upon those with whom I was meeting how vitally important exports were to American agricul-

[1] See p. 90 for a reprint of the article from the Wall Street Journal.

ture and to the American economy—and, incidentally, the way I usually put it is that we can employ really no more than 50 percent of our agricultural plant for domestic purposes, and so that at least 50 percent of our productive capacity in agriculture really looked to world markets. And, these world markets were important to the overall economy of this Nation—so we were deadly serious about being active and competitive in world markets.

Second, that we had heard some disquieting reports from Europe that the U.S. Government was at worst ambivalent about these questions about taxing fats and oils and restricting imports of nongrain feed ingredients. And I said to them that any such perception on their part was wrong, that each of these particular questions was regarded in our country as being very, very important.

I pointed out that I was in this particular case speaking for the U.S. Government, agencies other than the Department of Agriculture—virtually all agencies of our Government which the testifiers have mentioned were unanimous on this particular point.

Furthermore, at each stop I brought out a copy of S. 233, and I told them that I was confident that it would be signed by a majority of the Senate and passed. This being the case, in view of the strong feelings in Government and in our country about these particular points, I said to them that unilateral action by the EC in either of these areas would force the United States to immediate and decisive counteraction. At virtually every stop I was asked what that counteraction would be. My response was that I did not think it appropriate to be specific. On several occasions, however, I did cite what I called an interesting balance sheet, the balance sheet being that our total imports of beer, wine, champagne, cognac, cheese, and Scotch whiskey, and wool were less in dollar value than our exports to the Community of oil seeds and nongrain feed ingredients.

Senator DIXON. What is the difference, if you know?

Mr. AMSTUTZ. Between those two?

Senator DIXON. Yes.

Mr. AMSTUTZ. I am not crystal-clear sure.

Senator DIXON. Five billion dollars on these two things that we send to them.

Mr. AMSTUTZ. Yes. Do you have the figures? I will get them for you.

Senator DIXON. I would like to have that.

U.S. exports of oilseeds and products and nongrain feed ingredients to the EC compared with major EC agricultural exports to U.S.—1982

	Millions
U.S. exports to EC:	
Oilseeds and products	$4,050
Animal fats	146
Fish oil	28
Nongrain feed ingredients	696
Corn gluten	437
Citrus pellets	69
Total	4,920
EC exports to U.S.:	
Cheese	185
Vermouth	16

U.S. exports of oilseeds and products and nongrain feed ingredients to the EC compared with major EC agricultural exports to U.S.—1982—Continued

Champagne	$117
Wine	532
Brandy	131
Cordials	147
Scotch and Irish whiskey	427
Beer and ale	299
Total	1,854

Senator BOSCHWITZ. Our totals from Europe are a billion and a half, are they not? A billion dollars in wine is a big item—maybe it's a couple of billion dollars, and I think our exports are eight or nine.

Mr. AMSTUTZ. Yes, our exports are right around eight, total.

Senator DIXON. The specifics we are dealing with here amount to about five.

Mr. AMSTUTZ. Yes, exactly.

Senator BOSCHWITZ. That's correct.

Senator DIXON. $2,452,918,000.

Senator BOSCHWITZ. The biggest item is wine.

Senator DIXON. Wine is almost $1 billion—$969 million.

Mr. AMSTUTZ. As these discussions progressed, one question was raised in one of the capitals that I think this particular quote refers to, and it was in the context of nongrain feed ingredients as opposed to fats and oils. And I was told—I was asked, which of two statements was correct: First, that the United States refused to have any discussions whatsoever on these points, or second, was willing to. The party that raised the question, the government official that raised the question, said that he had heard both.

And I said, well, I think the answer is that each of those statements is true—that if one would assume that the United States did not attach high value to nongrain feed ingredient exports, if one assumed that, then it would be correct to say that the United States was simply not willing to discuss the subject, it was a nontalk issue, we were opposed to it, period, nothing to talk about.

But if one assumed that the value of these exports was indeed very high in the minds of the United States, and that any discussions under article 28 of the GATT would have to take that into consideration, well, then, the answer was, of course, we are willing to talk about it.

It's a fact, Mr. Chairman and members of the subcommittee, that under article 28 of the GATT, someone in the position of the EC can ask for discussions about this question of bindings, can ask to discuss compensation to the injured party, in the course of the negotiations, if they are interested in altering those bindings.

Those are the rules of the GATT.

And so, by and large, what I was saying is, if the Community wanted to discuss these particular subjects, we were willing. We have, Mr. Chairman and members of the committee, discussed these subjects before. And I even at one point said I hope we are always willing to talk when we have differences.

Senator DIXON. Do you know when the deadline is, Mr. Secretary, as to when they anticipate doing these things? What kind of a deadline are we working against?

Mr. AMSTUTZ. The simple answer, in my judgment, Senator, is next spring, prior to the announcement of prices for the new crop year.

Now, there are a number of deadlines prior to that, but that is my judgment.

It is a massive subject that they are discussing. I think it's noteworthy that there seems to be agreement among the member states of the EC that something should be done to harness this seemingly runaway cost problem of the CAP, to provide some fiscal, good fiscal management to it.

There also, Mr. Chairman and members of the committee, is in my judgment a clear belief in the common agricultural policy among the member states. Many of us in agriculture might like to see the common agricultural policy disappear and have a return to the old days when we were shipping all manner of raw food products to Europe.

But my firm judgment from what I heard there is there is belief in the common agricultural policy, a belief so strong in certain quarters that there is belief that it is the thread that holds the Community together, and a firm belief there that the Community must be held together.

And so it wrestles with the idea of holding the Community together, preserving the CAP, yet making necessary changes to make it work.

There are strong pressures from some countries for instituting really quite strong budgetary control, not universally agreed to by all member states. There are certain pressures to alter this system of currency adjustments, not agreed to by all member states.

There is not uniform agreement by all member states to institute a rather rigid quota system in the dairy area. And dairy, of course, is where the Community has an acute overproduction problem. But it is being discussed.

Senator BOSCHWITZ. I think their surpluses are even larger than ours.

Senator DIXON. In actual amounts?

Senator BOSCHWITZ. Yes.

Mr. AMSTUTZ. Our production figures were up 3 percent last month.

Senator BOSCHWITZ. Ah, Mr. Secretary, but we have passed a bill of enormous import that is going to change all that.

Senator DIXON. You hear me knocking on wood, don't you, Rudy?

Mr. AMSTUTZ. And the last measure, other than the two I have mentioned, that they are discussing relates to the lowering cereal intervention prices or support prices.

So these are massive issues that they are discussing.

Obviously we have our problems with these two particular issues, and our basic point is: Don't ask the third countries, us or Third World countries, to pay the cost for internal Economic Community adjustments.

Senator BOSCHWITZ. As I understand it, the CAP, the common agricultural policy, really is the glue that binds the EC together. It accounts for two-thirds of its budget I believe. In talking to their representatives I have heard. "Don't misunderstand it's expensive, but it's still an integral part of the system."

If you will allow just a moment, Senator, I would like to make a couple of comments and ask a couple of questions.

It's important to point out that you gentlemen have talked about it being in excess of 10 percent. I think that you can fairly say that the corn gluten and the soybean meal and other byproducts of the soybean are about 15 percent of our total trade—almost $5 billion out of a total trade figure of $34 or $34.5 billion. Fifteen percent would be $5.1 billion of that amount.

So as you talk to the Europeans perhaps that figure is certainly a lot closer than 10 percent.

One of you spoke about a call for unity, and in the past, in some of these trade negotiations, the State Department, the trade negotiator, and the Department of Agriculture have not been unified in their efforts.

I wonder if I could ask you to comment on whether or not that situation continues to exist, or is there a unity and an accord in this regard among you?

Mr. AMSTUTZ. Oh, I think there's absolute unity.

Mr. LIGHTHIZER. I think there is complete unity on it. We have had meetings, interagency meetings, within the structure of the TPC, the Trade Policy Committee, and there is no dissent at all I would say from the positions that you have heard stated by the three of us.

Mr. MCCORMACK. And I would say even more broadly—and I think Secretary Amstutz will concur—that the Department of State has been very supportive of the Department of Agriculture over the course of the time that Amstutz and I have been involved in this particular set of problems.

Senator BOSCHWITZ. Well, that's very good to hear, because it has not always been that way. And it is well that our friends in the EC understand that we have a common purpose, a common philosophy, a common goal, and also a common thread of how to get there so that they are not going to have a sense that they can rely on us to argue among ourselves.

Are we working with some of the other countries that you have named, New Zealand, Canada, Australia, and others? Are we getting any sympathy and succor from them?

Mr. MCCORMACK. We are getting sympathy and we are getting broad support, since our interests coincide.

Senator BOSCHWITZ. And are we doing some of the negotiations together with them, or have the countries not joined their interests to that degree?

Mr. LIGHTHIZER. It is our understanding that they are making their views on this subject known to the Community, as we are. We are of course not involved in anything you could call negotiations on the subject, but we have communicated with them and we understand that they have quite strongly communicated to the Community as we have.

Senator BOSCHWITZ. Is the Community still raising the prices, the levels of price that they pay their farmers? I know that in the midst of the problems that they had with their budget, they nevertheless raised the support levels.

Mr. AMSTUTZ. Well, we have a bit of an argument with them on that. They contend that they lowered them in real terms. That means a lower increase than the so-called rate of inflation.

Senator DIXON. COLA doesn't increase 100 percent.

Mr. AMSTUTZ. That's right. And we continually point out that we have lowered our support prices for next year in absolute terms.

But they have raised them less than the rate of inflation in their countries last year.

Senator BOSCHWITZ. What is the CAP costing the EC?

VOICE. $18 billion.

Senator BOSCHWITZ. But then there is also a 1-percent sales tax or excise tax so that the total cost to the consumer in Europe in the EC is about $40 or $42 billion.

Mr. MCCORMACK. The 1-percent tax raises the revenue that they subsequently spend on the CAP. That is my understanding of the situation.

In other words, they raise that $15 to $18 billion from this 1 percent.

Senator BOSCHWITZ. Am I correct when I say that the total cost of their agricultural programs is about $40 billion or more?

Mr. MCCORMACK. I can't say precisely.

[Consultation with staff.]

VOICE. There has been a calculation made of about $40 billion which includes the EC budget, it includes estimated cost to consumers, and also includes the member-state government budgets.

Mr. MCCORMACK. It's almost 50 percent divided, 50 percent accumulated individual outlays and 50 percent of it is the CAP outlay.

Senator BOSCHWITZ. I understand the figure is about $42 billion; in recent years it was $37 billion. It is interesting to note this contrast. The reason I asked for those figures is to contrast subsidies that they give their farmers and we give ours. Over the years, we Senators from farm States have often heard objections to how we subsidize our farmers. In a normal year farm subsidies are about $5 billion. In the last 2 years it was $15 billion and then perhaps $22 or $23 billion because of PIK, droughts, low commodity prices, embargoes, and so forth. However, the European Community sometimes spends in a year what we spend in a decade in this country.

It's important that we have a sense of that.

You said, Secretary Amstutz, that restrictions on oil seeds would not be immediately felt, in the process of your testimony, and I didn't understand what you are alluding to.

Mr. AMSTUTZ. Well, in gross or macro terms, the tax that is proposed would bring in total 600 million ECU's. An ECU is worth about $1.

The tax that has been proposed—and this, we think, is the most significant nature of it—is very nominal, and the Community has said to us on numerous occasions that it is so small that it cannot be disruptive. Our response has been the point is the imposition of the tax.

Senator DIXON. I remember when the sales tax in my State was a penny.

Mr. AMSTUTZ. Exactly, Senator—and so the point is the imposition of the tax not the tax amount.

And so in my discussions with them I said perhaps the total 600 million ECU's would not make much difference, but we are convinced that it would make a tremendous difference at 6 billion ECU's.

And, incidentally, at none of my stops, when I mentioned that difference in figures, did anyone say to me you are way too high on the eventual possibility level. Now, I don't want to infer that they said that that is also going to come to be. But no one denied that it could go up.

They rationalize the tax also by saying a tax on fats and oils would aid the consumption of butter vis-a-vis margarine. But, as I said to them, our analyses indicated no such change. And no one argued with me.

And there again raising that consumer tax over time could indeed change that balance as well.

So again it is the idea of the tax more than the amount proposed initially.

Senator DIXON. Have you completed, Mr. Chairman?

Senator BOSCHWITZ. Yes; I have.

Senator DIXON. May I first say, Mr. Chairman, how pleased I am, as a Member of the Senate who is not a member of the administration side in the Senate, at this presentation by the administration's representatives here. I generally applaud what you have done. I think it's clear that you have made our point of view very plain to the EC.

The bottom line I suppose I would like to get to as quickly as possible is this: Are we prepared to go forward to make our case and to retaliate, if necessary? I encourage you obviously, as I am sure we all would, to continue to discuss with them the possibilities that can ensue from what they might do. But are you sincere in your suggestion here that you will in fact retaliate if they do go forward with their plans?

Mr. AMSTUTZ. Oh, I think there is no question that we are sincere. Our hope is that there is no need for it.

Senator DIXON. Well, I would hope that we can make a case, as the Chair has suggested, that there is a common point of view here. The Congress, the administration, and everybody agrees that this is a matter of the most serious consequences involving something that all of us would be prepared to go forward with if the EC should in fact carry out its plans, or its suggested plans, and you are assuring us that the administration would take the necessary steps.

Mr. AMSTUTZ. Yes.

Senator BOSCHWITZ. Senator Zorinsky.

Senator ZORINSKY. Thank you, Mr. Chairman. I am concerned that the administration has not embarked on a philosophy that would pit the American farmers' ability to produce below cost of production against a fair price for the European farmer, because I think this is the way it has been in the past. Certainly I would hate to see it continue in that direction.

Now, I would like to ask a question. Secretary Amstutz, how long have you been in your current position?

Mr. AMSTUTZ. I have been in my current position, Senator, for about 5 months.

Senator ZORINSKY. Five months. How long have you been in your position, Mr. Lighthizer?

Mr. LIGHTHIZER. Since April.

Senator ZORINSKY. And Mr. McCormack?

Mr. MCCORMACK. Since February.

Senator ZORINSKY. Do you have enough background on your counterparts in the European Community to know how long they have been in their positions?

Mr. LIGHTHIZER. No; we could certainly get that for you and submit it for the record, if you want.

Senator ZORINSKY. I would appreciate it, because the point I am making—the Senator from Illinois just asked a very cogent question: Are you prepared to commit our Agriculture Department and this administration to carrying out those things that need to be done in order to implement what we are talking about?

What concerns me is this—I have gone through a panel like this before, and next year there is an election and some of us may not be at this table, there will be new people, and they won't be cognizant of the impetus or the thrust of what we are speaking about here today.

Senator BOSCHWITZ. We will all be back, Senator.

[Laughter.]

Senator ZORINSKY. I am just concerned about past precedent—it usually indicates the future.

But the point I am making is that whether it be in this or arms control or other areas that are negotiated with other countries, we seem to get undressed. The people that are involved, such as you gentlemen with the administration, are long gone when the culmination of past negotiations are to materalize. Any new group is at a disadvantage that didn't go through all the exercises in trade negotiations of the team you replaced.

I would like to find out if there is some way to ensconce you in a position so that we don't have a constant disadvantage with other countries over there that give an individual a womb-to-tomb appearance in their negotiations while we keep sending in people off the bench every 6 months that haven't gone through the exercise.

Mr. LIGHTHIZER. Part of this is just a difference in the way our governments function, our Government here and the governments over there.

I should also say that there are in all our departments a number of very excellent professionals that are there from administration to administration and that supply the kind of information that we need.

Third, I don't think that we are at a disadvantage when we negotiate with other people; I think we have a different kind of advantage that comes from having fresh people in and people with new energy and new ideas. I don't necessarily agree with the basic proposition.

And finally I would say that, at least my suspicion is, that if the President is reelected, which we certainly hope happens—hope he runs and is reelected—we will all manage to be here.

Senator ZORINSKY. When the farmer goes to the bank and borrows money, if the banker loans it to him for a period of time, he doesn't ask about who the trade negotiators are and what the ex-

ports of commodities are going to be—you see, this is where the textbook is that is on this table.

The reality of life is out there on the farms where the people are producing the commodities that we have been talking about selling at a fair and honest price in the world marketplace.

As bureaucrats we could sit here and talk all about how great we are, how much knowledge we have, and how much continuity of trade promotion we have, but if it's not there, the farmer is the big looser. The reason I asked the question to begin with is the illusion or actual impression back there in the midlands that farmers get when we lose export markets and farm prices and income drop as a direct result.

That's why I want to try to find out is there an area that we need some changes that will give us a greater degree of continuity in what we are trying to accomplish?

Mr. AMSTUTZ. Senator, I believe this is the 20th anniversary of the common agricultural policy, if not nearly so—it's about 20 years old. These particular subjects we are discussing now, fats and oils tax, restriction on the import of nongrain feed ingredients, have indeed come up in past years, I believe nearly over the entire history of the CAP as it relates to that fats-and-oils tax question, and throughout all the administrations that have served this Nation the policy has been the same.

Now, there is a nuance now—the nuance now being that the finances of the common agricultural policy are in more difficult straits than ever before. So perhaps this overall subject is up for closer scrutiny, stronger discussion.

Senator ZORINSKY. Senator Dixon asked what was the quid pro quo that was given away, and nobody seems to know, but you will find out—and I guarantee you, the European people know.

Well, what concerns me is that when you answered you have been there for 5 months and this gentleman from April and this gentleman from February—you know, why not, when an administration comes in, put your people in place and leave them there. Obviously President Reagan has been there for awhile—and this in no way denigrates your ability, but where are the fellows that were there before you, why were they changed?

Those are the questions that I get asked when I go back home, because people want to know why are we where we are today? Is it because we didn't have hard-nosed negotiators, is it they outtrade us, they outmaneuver us? And, as I said before, this in no way pinpoints the USDA either. They are asking questions about strategic arms limitation treaty, nuclear deescalation, build-down philosophies, and the whole ball of wax.

Mr. AMSTUTZ. Well, Senator, with all respect, I think this administration has done a pretty good job for farmers in international markets.

Senator ZORINSKY. Well, I am not downgrading the job that this administration has done, because I have supported this administration probably more often than I have opposed it. But I am one of these people that believes in the philosophy that there are too many Republican Senators and too many Democrat Senators and not enough U.S. Senators. And so I could care less about partisanship. I want to know—the bottom line is what is in the best inter-

ests of the country. And certainly it isn't to argue about which administration did better for farmers; it's to find out what the problems are in both continuities of both administrations and to try to rectify them and make it better.

But if you have any suggestions or recommendations which would lead to legislation or resolutions or things that we as the U.S. Senate Agriculture Committee could help you with, I think that is what we all want to do.

Mr. AMSTUTZ. Well, Senator, in that regard—and perhaps I should have said it more strongly—the current resolution that Senator Dixon introduced and each of you cosponsored was very valuable for me to have in my briefcase while I was over there—very helpful.

Senator ZORINSKY. I'm glad to hear that, because, hearing that, I will relate that to people who ask me back home.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. I thank the Senator. I sympathize with his point of view on why people don't stay in their office. In my 5 years as a Senator, there have been four national security advisers and we are also on the fourth Secretary of State. In my lifetime, however, there have been only two Secretaries of State, or their equivalent, in Russia—Mr. Molotov and Mr. Gromyko.

So I have a sense that we shouldn't churn our people. I want to assure the Senator that I have known Mr. Amstutz, who was associated with Cargill, a local company in Minnesota, for many years. He brings with him a great depth of experience, I have known Mr. Lighthizer since I have been here. He is quick, there is no question about it. I recall very well one day when I brought a young man who had made $100 million in the computer business before he was 25, and Mr. Lighthizer dealt with him with great dispatch, I might say—I was very impressed. I was more impressed that this young man should come into all that dough. [Laughter.]

Senator DIXON. He was pretty quick, too. [Laughter.]

Senator ZORINSKY. That's all the more reason we should have their continuity.

Senator BOSCHWITZ. Well, I understand, but that is all the more reason that they should also rise. I don't know the Assistant Secretary, but I am sure that he, too, comes from a broad background.

Senator ZORINSKY. Well, they have got to be patriotic.

Senator BOSCHWITZ. In any case, I am very pleased that there is an accord among the Department of Agriculture, the trade representative, the Department of State—and that they are moving in the same direction and in the same manner.

I want to assure you that Senator Dixon's resolution and the one that I introduced a couple of years ago speak of the accord that you will find with those viewpoints here in the Senate. As a matter of fact, as elected representatives who respond to constituencies, we probably have an even stronger—Senator Zorinsky has also noted that the real activity is on the farm in Nebraska, in Minnesota, in Illinois. Certainly, if we reflect those viewpoints, as we do, our strength of conviction and the fact that you should hang in with these folks over there—that strength and conviction is very strong among us, so we thank you for coming and we hope you will make our strength of conviction very clear, and the fact that you do have

the support of the U.S. Senate. And it's very pleasing to know that you are working as a team and that we believe in that case that we will prevail—and we must prevail.

Senator DIXON. May I make this final point, Mr. Chairman—first, that I want to share with enthusiasm all of your remarks. I think that the gentlemen have made a very excellent presentation, and I am pleased with the cooperation we are receiving on this subject matter from the administration. But I would want to share this point of view expressed by my colleague and friend from Nebraska, Senator Zorinsky. There is a perception so often back home when we go into public meetings, town hall meetings, and other places, that we are being outnegotiated all the time and that we are just not getting a fair break in our competitive position in the world marketplace. I would call to your attention that this is one that everyone is watching very closely. All the major agricultural groups and the supporting business groups in the country are watching this one very closely. It is a big one for all of us in our States. And I know that you will take that thought back with you to the administration. We don't want to lose on this issue. It is a vital issue to the agricultural community, and everybody will be watching it closely. We are going to hear about this for a long time if it doesn't turn out well. So I know that you will play the game to the hilt and support our point of view.

And we thank you for that.

Mr. MCCORMACK. I suspect we will also hear about it for a long time if we don't do it right.

Senator BOSCHWITZ. Well, we thank you gentlemen very much for coming.

And now we call on John Stevenson, president of the National Corn Growers Association; Thomas V. Fischer, executive vice president, A. E. Staley; and Bobby McKown, executive vice president, Florida Citrus Mutual.

Senator Dixon.

Senator DIXON. Mr. Chairman, if I could impose upon you, I would like to introduce Tom Fischer from my State and then ask to be excused—I have had people in my office since 3 o'clock.

I am delighted to introduce Thomas V. Fischer, who has been executive vice president of Staley since February 1978; he has been a vice president of the company since May 1969 and a member of the board of directors of the company since 1970. Mr. Fischer joined Staley in 1965 as secretary-legal counsel. In December 1969, he was promoted to group vice president, law and administration, and served in that assignment until becoming group vice president, industrial products, in 1973.

Before joining Staley, Mr. Chairman, Mr. Fischer was secretary-counsel from 1963 to 1965 with North American Car Corp. of Chicago, and for the previous 7 years he was associated with the Chicago law firm of Stevenson, Conaghan, Hackbert, Rooks & Pitts. Mr. Fischer was graduated by DePaul University, Greencastle, Ind., with an A.B. degree and by the University of Michigan, Ann Arbor, Mich., with a J.D. degree.

He is a native of Glencoe, Ill., and Mr. Fischer served for 2 years in the U.S. Marine Corps. He is a distinguished businessman in my State, Mr. Chairman, and well-advised in these matters.

I am delighted to present to you, sir, Thomas V. Fischer.

Senator BOSCHWITZ. We thank you, Senator. We understand the need for your departure, and we thank you for being at this hearing for the length of time that you have been here.

Senator DIXON. I really need to go, and I thank you, Mr. Chairman, and I thank Tom for coming. Nice to be with you all.

I leave my good assistant here, and he will listen to everything and write it all down.

Senator BOSCHWITZ. Mr. McKown, Senator Hawkins regrets that she can't be here. I am not sure if she is on Capitol Hill today, but perhaps we can ask you to introduce yourself.

And, Mr. Stevenson, I believe that you are up first, if you will proceed.

STATEMENT OF JOHN STEVENSON, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION

Mr. STEVENSON. Thank you, Senator. It is indeed a pleasure for me to represent the National Corn Growers Association today in this very vital hearing that we are so involved in.

I am a corn, soybean and cattle farmer from Circleville, Ohio, and I farm there with my wife, daughter, sister, and a couple of hired men. And we are all very vitally involved in agriculture.

I would like to present my testimony for the record, if I may, and then just kind of reiterate some comments from there on.[1]

Senator BOSCHWITZ. Please proceed.

Mr. STEVENSON. As we view the European Community, we view it with kind of a good-news or bad-news scenario, the good news being that I think the Community's heavy subsidization of food will be self-correcting, but it might take a generation of two, which is the bad news.

Senator BOSCHWITZ. I have thought that for many years.

Mr. STEVENSON. But in the meantime the corn products and gluten feed that we have exported have expanded from a 1.7 billion bushel equivalent in 1975 to 4.4 and $4.4 billion to a 1980–81 of 2.4 billion bushels and $9.5 billion.

Senator BOSCHWITZ. That's total exports to the world?

Mr. STEVENSON. We think just to the Community. You are right. But then 95 percent of the gluten meal then going to the European Community.

As we view the history of the European Community and our interaction with it, we kind of start our viewing, say, in 1966 when we entered into kind of a poultry war with the Community, and we lost the Middle Eastern market in that war. Since then, why, we have lost—since 1967—beets and flour and grain, and we also view various administrations looking at the Community in a rather standoff situation, that they really hate to counteract the common agricultural policy. And we feel it is time for some retaliatory measures. We realize that there are some being taken now, and we applaud them. Maybe some further retaliations might be massive dairy exports or high-tech situations to really get their attention.

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[1] See p. 52 for the prepared statement of Mr. Stevenson.

Senator BOSCHWITZ. Dairy exports would certainly get their attention.

Mr. STEVENSON. I suspect they would. The corn growers membership at their last annual meeting directed the leadership of the organization to expand domestic and foreign markets again rather than relying on a demand for a supply-type situation.

And with that in mind we have embarked on trying to expand corn fructose, corn sweeteners, more than we have in the past, and also to expand the enhancement of motor fuels with alcohol, ethanol alcohol.

Both these situations call for additional production of corn gluten to storage grains, and consequently a market for that to be found. And when we look to the Community, there is our best market now; it certainly is the most viable outlet that we can see, and therefore again we see the necessity of getting the situation under control and at the same time we hear rumors that the 3 million tons that we presently are exporting in gluten meals might be cut to 2.9 or 2.8, and this frightens us. Rather than an expansion scenario, why, we are looking at a lessening. And we become immediately concerned again.

And we want to reiterate the fact that we need a very matter-of-fact approach, a unique and forceful approach, if necessary, to get the situation under control.

And with that, I do appreciate this opportunity, sir.

Senator BOSCHWITZ. I appreciate the testimony and the brevity of it, and I will assure you, Mr. Stevenson, that the entirety of your testimony will be entered in the record and that I will read it.

Would you please comment briefly on the testimony of Secretary Amstutz and Bob Lighthizer and the Assistant Secretary of State, McCormack?

Mr. STEVENSON. Well, we do applaud the messages that they carried throughout Europe in their last session. We have heard very favorable comments, very forceful comments that they delivered. And we think there needs to be more of that to the point where we would like to get some of our own farmer delegations to make similar visits and voice our feelings and opinions.

Senator BOSCHWITZ. Well, it all helps; it all helps. How is the crop around Circleville?

Mr. STEVENSON. Very, very poor.

Senator BOSCHWITZ. Did you have some of your crop in PIK?

Mr. STEVENSON. Yes; fortunately, what a salvation. You know, if we had all been exposed to that financial exposure we would be even more wiped out than we are.

Senator BOSCHWITZ. People are critical of PIK and say that it costs a great deal. However, the catastrophic program that would have evolved if there had not been a PIK would probably have been as costly as PIK because of the extent of the drought that took place this last summer. The Lord was kind to Minnesota. While there was some lower yield, the drought by and large passed us with some occasional small spots here and there.

We thank you for your testimony. And, Mr. Fischer, after that introduction, we expect a great deal from you.

Mr. FISCHER. Perhaps more than I can deliver. Thank you, Mr. Chairman, for permitting me to appear before this committee

today. As Senator Dixon mentioned, my name is Tom Fischer and I am executive vice president of A. E. Staley Manufacturing Co.

It is my privilege today to speak on behalf of Staley as well as on behalf of the Corn Refiners Association.

For the sake of brevity I will try to summarize my detailed testimony, but do ask that it be included in its entirety in the record.[1]

Senator BOSCHWITZ. It will be done, and I also assure you, Mr. Fischer, that it will be read.

STATEMENT OF THOMAS V. FISCHER, EXECUTIVE VICE PRESIDENT, A. E. STALEY MANUFACTURING CO., ON BEHALF OF THE CORN REFINERS ASSOCIATION

Mr. FISCHER. Thank you, sir. The subject of this hearing is of vital importance and of deep concern to the entire U.S. corn refining industry. Our concern is prompted by the increasingly militant attitude of the European Community toward U.S. agricultural products in general and, more specifically, the threats that have been discussed today toward edible oils and fats and putting limitations on the importation of corn gluten feed.

Today I will concentrate my remarks on the corn gluten feed situation.

As a byproduct of the corn wet milling process, corn gluten feed has increased in supply in direct relationship to the growth of the corn refining industry in this country. To put that in perspective, production of corn gluten feed has grown from 1.5 million metric tons in 1972 to 3.3 million tons last year, most of that growth being the result of increased high fructose sirup production. As has been commented, practically all of the corn gluten feed today is exported to the European Community, and, in fact, the EC is approximately a $500-million-a-year market for U.S. corn gluten feed.

The circumstances surrounding these imports has triggered concerns, misconceptions, and false conclusions in the EC regarding corn gluten feed. And this afternoon I would like to address very briefly some of the more widely held concerns and misguided remedies.

First, the idea seems to persist in the EC that the U.S. corn refining industry is producing corn gluten feed as a primary product because of an attractive market in Europe. I think as I just mentioned, corn gluten feed is a byproduct of the corn refining process, which is directed toward production of corn sweeteners, starches, and power alcohol.

To illustrate, consider the current relative value of corn feed versus high-fructose corn sirup on a per-bushel-of-corn basis. The value of the high-fructose corn sirup obtained from a bushel of corn today is $7.20 as opposed to 98 cents for the value of the corn feed. In other words, high-fructose corn sirup approximates 80 percent of the total value obtained from a bushel of corn, while corn gluten feed accounts for only 10 percent. That is not to say that the corn gluten feed is not important, but it does put in perspective that it is a byproduct rather than one of the principal products of the process.

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[1] See p. 78 for the prepared statement of Mr. Fischer.

I think it clearly illustrates that U.S. corn refiners do not process corn for the primary purpose of producing corn gluten feed for the European market.

A second misconception is that corn gluten feed imports into the EC could reach 10 million tons by the mid-1980's because of explosive growth of the corn refining industry in the United States. An often-cited reason for this projection is a major expansion of power alcohol and high-fructose corn sirup.

U.S. corn refiners do in fact look forward to growth and progress but realistically it will not be of the magnitude to warrant European concerns for 10 million tons of corn gluten feed imports annually.

Two years ago, the Staley agricultural economist, Mr. Vernon McMinimy, made some public forecasts for the company on corn gluten feed imports that have proved very accurate—and, incidentally, those are included in the full testimony, Mr. Chairman. Therefore, we think it would seem worthwhile to consider our most current projections regarding corn gluten feed for the EC in 1984 and 1985.

For 1984 the company has revised its figures downward from previous estimates. We project corn gluten feed exports to EC at some 3.8 million metric tons, essentially flat compared to this year's level. For 1985 the prospect is for a modest increase to approximately 4 million metric tons, a far cry from the often-mentioned 10 million tons that have so troubled EC in recent years and apparently continue to be worrisome.

We think that the European Economic Community has no reason for alarm concerning a substantial increase in the imports of corn gluten feed in the next few years. This fact aside, we would suggest that this is not the crux of the problem.

Instead, attention should be focused on the Community's common agricultural policy and its protectionist philosophy which makes the EC an attractive market for U.S. corn gluten feed.

The price of grain in the EC is artificially high compared to the United States and world prices. To insure that their internal grain prices stay at or above the support levels, the EC requires that imported grain carry a levy equal to the difference between the world price and the EC support price. This levy system serves to restrict the imports of cheaper world grains, thereby protecting the internal price. Under GATT the levy system does not apply to corn gluten feed.

If the EC policy of maintaining artificially high internal grain prices were to stop, the flow of corn gluten feed to Europe would be reduced as world price grains once again provided economical feed rations.

Now the EC is threatening to abort a longstanding commitment made in earlier GATT negotiations to allow corn gluten feed to trade within the EC without restrictions.

Senator BOSCHWITZ. Were those GATT negotiations or were those the so-called Dillon rounds?

Mr. FISCHER. Well, I must confess, Mr. Chairman, I am a little confused myself. I thought it was part of the original GATT negotiations, but I am sort of interested in getting the full story as I guess the rest of you are.

Senator BOSCHWITZ. The Treaty of Rome established the EC——

Mr. FISCHER. Parameters, yes. I don't think it was that.

Senator BOSCHWITZ. And these other negotiations established where the bindings would occur, where levies would occur, and we agreed to them.

Mr. FISCHER. I believe that's correct, yes.

Instead of facing the consequences of its own policy, the EC is seeking to avoid them by shifting the burden to U.S. agribusiness and the American farmer. If the EC is successful in efforts to shift some of the burden of its policies to the non-EC producers of corn gluten feed, there would seem to be little to keep it from doing the same thing to the non-EC producers of soybean meal and soybeans. And it has been noted earlier that the EC is presently a $3.7-billion market for U.S. soybeans and soybean meal.

Mr. Chairman and members of the subcommittee, we hope that this time the U.S. Government, U.S. agribusiness, and the American farm community will have the resolve to say to the EC:

> No more. We will not carry the burden of your policies; we will not allow you to ignore our "fair market" philosophy; we will not permit you to erect more artificial barriers that are damaging to the entire U.S. agricultural sector.

We think that this hearing and others scheduled for later this month are encouraging signs that Congress is aroused and ready to respond to the inequitable actions currently being contemplated by the Community.

We think that too often in the past hearings such as this have ended without a strong statement or followup action. It appears that this will not be the case this time. Senate Resolution 233, sponsored by you, Mr. Chairman, and other Senators here today, addresses the EC problems that we are discussing today. A similar resolution has been introduced in the House.

The U.S. corn refining industry applauds these resolutions and encourages their support. Further, we would encourage the Congress to request that USDA and the administration formulate a specific plan of retaliation if the EC persists on its present course. And, even more importantly perhaps, have the resolve to carry out the actions if necessary.

We fully realize that these are stern measures and that the consequences would be significant, but the time has come for U.S. agriculture to stand firm. We think that only with firmness can we demonstrate our dissatisfaction with the EC and other foreign governments who erect trade barriers, pursue inequitable subsidization programs, and foster the dumping of products in the world market.

U.S. agribusiness and the U.S. farmer are still the most efficient and prolific producers of feed grains and oil seed products in the world. All we seek is an equitable environment in which to compete.

Thank you for allowing me to appear today, and I will be pleased to answer any questions you may have.

Senator BOSCHWITZ. Thank you very much. I ask you for your reactions, to previous witnesses. They seem to have resolve and we certainly have similar resolve here in the Senate. And I have found in these hearings that producer groups—Mr. Stevenson, yourself—

talk with greater emphasis shall I say than those who are involved in diplomacy and who almost by definition are somewhat more circumspect.

But I thought that they were quite direct today, and it was nice to see the State Department and Ag and the trade representative all moving in the same beat.

Mr. FISCHER. I certainly agree, Mr. Chairman, and we are encouraged by the firm stand. Obviously everyone would prefer a reasonable settlement, but I think the question of credibility is at stake. I think this is the time that the United States, all of us working together, have to demonstrate to the EC that we in fact have that resolve. I think in the past perhaps we have not had the persistence, the unified action—and we are very encouraged by what is happening, and certainly want to help do our part.

Senator BOSCHWITZ. For those who look at the testimony of this hearing, or listen to it, it is particularly significant, the positions that are taken by the three gentlemen on the earlier panel, in view of the fact that this administration has taken a more open free-trade approach. I also am a devotee of free trade, but I add the word "fair" to it. I certainly look with great chagrin at what happened in Europe. I talked to a number of the visiting groups from other countries who have come here. When we had the agricultural commissioner from France, I think she has since been replaced, has she not?

VOICE. She's been elevated.

Senator BOSCHWITZ. She's been elevated—I see. But, to continue, some of the Senators, myself included, were quite direct with her, because clearly the very basics of the heartland of the United States—Illinois, Minnesota, other States—are threatened by EC actions, which are really without justification.

We thank you. And now we turn to Mr. McKown. I once again apologize for the absence of my friend, Senator Hawkins.

STATEMENT OF BOBBY McKOWN, EXECUTIVE VICE PRESIDENT, FLORIDA CITRUS MUTUAL

Mr. MCKOWN. Thank you, Mr. Chairman, and I appreciate having the opportunity to appear here today before the committee.[1]

My name for the record is Bobby F. McKown, I am executive vice president and general manager for Florida Citrus Mutual, a voluntary cooperative of citrus growers, whose membership consists of 13,339 active citrus growers.

Mr. Chairman, I am also speaking today on behalf of the Florida Citrus Processors Association as well as the Florida State Department of Citrus, which is an executive branch of State government.

These comments are submitted for your consideration and members of the committee in connection with review of the proposals as advanced by the Commission of the European Communities. And I might say, Mr. Chairman, we have had a long-standing battle, so to speak, with the EC, particularly in the area of orange juice.

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[1] See p. 85 for the prepared statement of Mr. McKown.

The citrus grower and processor members of this coalition are engaged in the production of citrus pulp pellets, used as a high carbohydrate feed, and which is a byproduct of juice production engaged in by the Florida, Texas, and U.S. citrus industries.

We, too, Mr. Chairman, are greatly concerned about and strongly opposed to the recent proposals of the Commission of the EC in connection with the reform measures for the EC's common agricultural policy, to impose an internal consumption tax on fats and oils other than butter and to restrict the importation of nongrain feed ingredients, such as corn gluten feed and citrus pellets. Now, while no U.S. legislation is presently under consideration, since tbe EC proposals are not completed, we support the committee's efforts to develop a very clear and distinct record of the damaging impact that it would have upon our industry and the other industries as set forth in that proclamation.

We also support the U.S. Department of Agriculture and the U.S. Trade Representative in their efforts to discourage the EC's adoption of these restrictions, possibly GATT-violative trade measures in an attempt to shift the burden of the CAP's financial problems.

Now, the citrus industry is an important segment of Florida's economy, accounting for over 30 percent of the $4 billion of Florida farm-gate receipts in 1981. We have an estimated 16,000 citrus growers in Florida, accounting for 20 percent of the total 86,000 people employed directly in the Florida citrus industry, and another 87,000 people indirect. So it's a vital part of the economic system in the State of Florida.

Mr. Chairman, also citrus pulp pellets over the last 10 years—we used to market 70 percent of the total citrus feed and pellets in the United States. We immediately began to develop the export market. The last 10 years we have reversed that: We are now shipping 70 percent into the foreign export market and utilizing 30 percent domestically. And approximately 90 percent of that total export goes to the EC.

We expect in 1983 and 1984 that the sales of citrus pulp pellets will exceed $100 million. Though small in relation to some of the other commodities mentioned today, yet gigantic and very important to the Florida citrus industry.

We have also attached some statistics to our statement which will be entered in its entirety in the record.

The volume of exports, as I said before, has increased from 18 percent of Florida production in 1972–73 to 78 percent of production in 1982–83.

The EC is now considering reforms in its common agricultural policy which may include duty increases or quantitative restrictions on imports of citrus pulp, as well as other nongrain feed ingredients. We understand the intent of this proposal is to eliminate the EC's existing system of price supports and bring EC prices more in line with world market levels, and eliminate EC export subsidies which are relied upon to dispose of production surpluses stimulated by CAP programs.

The dubious benefits to be gained by the EC through such restrictions place the burden directly on Florida and other U.S. producers of citrus pulp and nongrain feeds, and it also threatens to disrupt the internal U.S. markets as well, as citrus pellet produc-

tion searches for alternative markets after having built to substantial levels in meeting the overseas demand.

Apart from the policy rationales that we have outlined here, we feel that unilateral import restrictions of the kind being considered by the EC may also violate the General Agreement on Tariffs and Trade, and the tariff bindings undertaken by the EC during multilateral trade negotiations. At the time of the Tokyo round, a zero-duty rate was bound for nongrain feed articles—including citrus pulp—in exchange for tariff concessions by the United States on imports of other products from the EC. The Florida citrus growers and processors have a right to rely on this binding.

The Florida citrus growers and processors have moved to fill the market demand in Europe by expanding domestic capacity and production efforts, and have met the need of European livestock producers for reasonably priced nongrain feed substitutes.

To this end we support the principles and objectives expressed in Senate Resolution 233 and House Resolution 322, that the Congress should express its sense to the President that he should urge and take whatever steps are available to encourage the Council of European Community Ministers to reject the EC Commission proposals to shift to the United States the financial burden of disposing of EC agricultural surpluses, especially the burden on U.S. producers of citrus pulp pellets.

Mr. Chairman and members of the committee, Florida Citrus Mutual is ready to assist and respond to any inquiries or questions and support the subcommittee as well as our Government in the continued negotiations and in setting forth the policies set forth in the resolutions.

Senator BOSCHWITZ. Have the Florida citrus growers or any citrus organization ever worked in concert with the corn growers?

Mr. MCKOWN. We have coordinated with many of the other agricultural producers in the country, citrus in particular, but we have also worked with some of the soybean growers, some of the cattle producers, and some of the other agricultural segments in this country.

Senator BOSCHWITZ. Let me repeat the question. In regard to the subject before this subcommittee today of the European Community CAP policy, has the Florida citrus growers worked with the corn growers and the soybean growers, the Soybean Association?

Mr. MCKOWN. We have worked on a limited basis with the soybean. We have not worked with the corn growers to date.

Senator BOSCHWITZ. Just as I have suggested in the case of the State Department, the trade representative, and the Department of Agriculture, that finding common cause is helpful, so I suggest—not only to you, but to you, Mr. Stevenson, and the soybean industry representatives that you make common cause in these things.

And one of the great difficulties we have in this committee is that varying elements of the agricultural community are often at odds with one another, which makes our job of trying to protect or expand the interests of that community as a whole more difficult.

We now call the final panel: Roger Asendorf, first vice president, American Soybean Association; Robbin Johnson of Cargill, on behalf of the National Soybean Processors Association; and Brian Peterson of the National Sunflower Association.

Mr. Asendorf.

STATEMENT OF ROGER ASENDORF, FIRST VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. ASENDORF. Thank you, Mr. Chairman, and I would ask that the presentation that is presented be printed in the record. And I will summarize.[1]

Senator BOSCHWITZ. And I assure you, Roger, that I will read it in its entirety.

Mr. ASENDORF. I am Roger Asendorf, a farmer from Minnesota, a corn and soybean farmer, and I am appearing here today in my capacity as first vice president of the American Soybean Association. ASA commends the chairman and the other Senators who have called this hearing, and appreciate the chance to come and speak before you today.

The 10 nations of the European Community collectively purchased 46.6 percent of total U.S. exports of soybeans and soybean meal in fiscal year 1982. The EC purchases of soybeans from the United States were valued at $2,961,000,000, while the value of the meal was $902 million, for a total of nearly $4 billion, which was 10 percent of the total value of U.S. exports of all agricultural products during the year of 1982. Soybean meal is used in the EC for livestock and poultry feeds and soybeans imported into the EC are processed there into soybean meal and soybean oil. The primary use for the oil being the production of margarine, salad oils, shortening, and cooking oils.

Since 1962 agricultural production has risen dramatically in the EC. And yet its production of proteins has not kept pace with the growth of the poultry and livestock industries. Thus the demand for those imported soybeans and soybean meal has grown greatly since 1962. With EC now producing a surplus of milk, poultry, and wheat, over two-thirds of the EC's budget is now allocated to farm supports. Some within the EC, particularly the French have begun to blame duty-free soybean and soybean meal for the failures of the CAP. And they see soybeans as the hole in the dike in the CAP and are out to close that hole.

Unwilling to pay the compensation necessary to abrogate the cereal bindings, the soybean critics of the EC have sought some GATT-legal way of undermining those bindings. The fats and oils tax is the method the EC has chosen to undermine the zero bindings, and under the proposal the EC would impose a tax of 7.5 ECU per 100 kilograms on all fats and oils with the exception of butter.

ASA views the tax with enormous concern and hopes that the United States will oppose it with maximum resolve. We believe the tax has the following implications:

First, the tax discriminates against lower priced oil like soybean oil and increases the consumer price by a higher percentage than for higher priced oils such as olive oil.

Second, the tax would decrease the relative competitiveness of margarine with butter and reduce the total soybean oil consumption within Europe. USDA economists have estimated a cut in EC

[1] See p. 73 for the prepared statement of Mr. Asendorf.

soybean oil consumption of 85,000 to 150,000 metric tons with the majority of that oil being dumped on the world market in competition with U.S. soy oil exports. The impact on the world soybean oil price is unclear but estimates by USDA economists indicate a 3-percent to 6-percent decline would occur.

Third, the value of soybeans to EC processors would be lower since the demand for soybean oil would be less. In order to make up the decline in value, the processors would either have to pay less for imported soybeans or assign a higher value to soybean meal.

Fourth, with the expected accession of Spain and Portugal into the EC in future years there will be great pressure to increase the fats and oils tax on soybean oil in order to pay the costs of supporting the huge amounts of olive oil produced in those two nations. If the oils tax is ever allowed to be imposed, we will be powerless in future years to prevent its increase. The threat of future discriminatory increases is actually more important than the impact of the proposed tax.

Senator BOSCHWITZ. That is what Secretary Amstutz said.

Mr. ASENDORF. Right, and that is our fear—there is no way of stopping it once they get their foot in the door.

Senator BOSCHWITZ. Like Senator Dixon said, the State sales tax started at 1 cent.

Mr. ASENDORF. Right.

Fifth, imposition of the tax will effectively result in the U.S. soybean industry paying part of the cost of the CAP, including export subsidies on wheat, wheat flour, poultry, and other commodities. By raising butter consumption, it will reduce the cost of dairy supports at the expense of U.S. soybean producers.

Sixth, if the United States allows the tax to be imposed in the EC, it will set a precedent which will be followed by other protein-deficient but oil-surplus nations. The result will be further decline in world vegetable oil prices and a reduction in the value of soybeans to U.S. producers.

Seventh, imposition of the tax will mean the nations will have carte blanche to use internal mechanisms to negate their GATT-bound import commitments. Such a process would effectively destroy the GATT and set in motion a dangerous rise in world trade protectionism.

Eighth, a decline in U.S. soybean prices caused by a decline in U.S. exports to the EC will have major repercussions within the United States. If soybeans become less competitive with other crops, particularly corn and cotton, production of those crops will increase. The impact on the U.S. Treasury from such crop production shifts could be enormous.

In conclusion, Mr. Chairman, ASA believes it is imperative that the U.S. Government continue to strongly oppose the imposition of the fats and oils tax. We commend the administration for the strong interdepartmental unanimity with which it has opposed the tax. In particular, we appreciate the very strong statement of USDA Under Secretary Daniel Amstutz regarding the tax when he recently spoke at a London ASA-sponsored outlook conference.

For your information, Senator, at that conference, after Mr. Amstutz left, one of the people from the EC Commission spoke at a

later meeting right after he had brought up the retaliation, the potential possible retaliation that may occur should the EC tax be put in place, he made the statement that if we didn't know before where the United States was coming from on this oil seed tax, we sure know now because the halls are still ringing from Mr. Amstutz's remarks. So I think at that particular conference he did get the message across.

We also thank Senators Dixon and Helms, and you, Mr. Chairman, and others who cosponsored the Senate resolution expressing opposition to the proposed fats and oils tax. If this tax is imposed, it will be a foot in the soybean door that the EC has long sought in order to negate the 1962 zero bindings. Those zero bindings are the largest single zero tariff binding the United States has ever achieved. If the EC is able to undermine that commitment, it will only mean enormous long-term losses to U.S. soybean farmers, as well as the destruction of what remains of the GATT multilateral trade structure under which world trade has been governed since the end of World War II.

The United States cannot afford to see a tax imposed.

Thank you, Mr. Chairman. If there are any questions, I would be happy to answer them.

Senator BOSCHWITZ. Mr. Peterson, if you would proceed.

STATEMENT OF BRIAN F. PETERSON, CHAIRMAN, PROCESSORS COMMITTEE, NATIONAL SUNFLOWER ASSOCIATION

Mr. PETERSON. Mr. Chairman, I appreciate this opportunity to discuss with you today the anticipated impact of the proposed EC vegetable oil tax on the sunflower seed industry in the United States.

I, too, would ask that my submitted testimony be accepted in its entirety, and, as I go along here, I will try to edit it for the sake of brevity.[1]

Senator BOSCHWITZ. Are you from Minnesota, too?

Mr. PETERSON. Yes, sir, I am from Red Wing, Minn.

Senator BOSCHWITZ. I was just there.

Mr. PETERSON. Yes, sir, I was there, too.

The National Sunflower Association is a producer- and industry-supported commodity association and is a cooperator with the Foreign Agricultural Service. The NSA represents 15,000 sunflower growers and 100 allied industry members throughout the United States. Its members produce 90 percent of the sunflowers grown in the United States and 95 percent of the total U.S. sunflower oil and meal.

To describe the potential impact of the proposed EC tax, I should first give a brief background on our industry and where we are today.

Sunflowers have become a very significant alternative crop for upper midwest farmers. It should be emphasized that sunflowers are a cash crop. In the current crop year, 3,100,000 acres were planted with sunflowers. These acres require no Government outlays for PIK, loans, or target prices.

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[1] See p. 70 for the prepared statement of Mr. Peterson.

The export market is very important to the sunflower industry. As a matter of fact, the sunflower industry in the United States has developed in response to world demand for sunflowers. The European Community itself has been a significant market for U.S. sunflower seed, in a recent 9-month period taking as much as 48 percent of total U.S. exports of sunflower seed.

The EEC is not a market for U.S. sunflower oil. The EEC imposes a 10-percent duty on imported sunflower oil which effectively keeps us from being competitive within the EEC. The U.S. sunflower oil that goes to Rotterdam is generally transhipped to destinations outside of the EEC. The principal export markets for the U.S. sunflower oil have recently been Algeria, Egypt, Japan, Mexico, and Venezuela.

As I have shown, the U.S. sunflower industry is a young industry that has grown rapidly in response to world demand. It is heavily dependent on exports. It was thought to have a bright future, but that future has become clouded. The main reason is the illegal subsidies granted to the Argentine crushing industry via the mechanism of differential export taxes. This subsidy amounts to a $26-per-metric-ton subsidy on sunflower seed, and is responsible for some alarming trends in the U.S. sunflower industry.

Senator BOSCHWITZ. How much is sunflower seed worth per metric ton? What value is $26 a percentage of?

Mr. PETERSON. $26 per metric ton is a percent of a value that would vary quite a bit, but it is probably about—a quick calculation—about 5 percent.

But the point of the $26-per-metric-ton subsidy is that, that is, for most of my recent experience in the sunflower industry, more than the total crushing margin for the U.S. processor.

This illegal subsidy is responsible for 95 percent of the Argentine crop being processed domestically while only 30 percent of the U.S. production is processed domestically. During the 1982–83 crop year, although the United States produced more sunflower seed than Argentina, the Argentine crushing industry crushed 2½ times as much sunflower seed as we crushed. This subsidy is causing the U.S. industry to lose market share—and subsequent testimony there explains that; I won't read it here.

But I would like to go on and say that total sunflower seed production in Argentina this year will surpass that of the United States for the first time since 1977–78. Prior to 1977–78 Argentine production was frequently larger than the U.S. production.

Senator BOSCHWITZ. But the crop was not a big crop.

Mr. PETERSON. The crop was not a big crop. In the late seventies and early eighties, the U.S. crop expanded dramatically. And our concern is that in the last couple of years it started going down again, and now Argentina's crop is becoming larger than ours.

And we feel that a large part of this is in response to the subsidies granted their processors.

In response to these dangerous trends, on September 28, the National Sunflower Association filed a section 301 petition with the Office of the U.S. Trade Representative specifically requesting the illegal subsidies in Argentina be stopped.

Mr. Chairman, to further document the economic stress the U.S. sunflower seed industry is experiencing right now, not only because

of Argentina, I would like to submit a copy of our 301 petition to the committee.

The preceding information has been an effort to provide the context in which the National Sunflower Association views the proposed EEC consumption tax on vegetable oils. This tax, if enacted, would seriously exacerbate a bad situation for the U.S. sunflower industry. Any action which adversely affects vegetable oil consumption in the EEC will directly affect U.S. sunflower seed exports to a major market. Any action which adversely affects vegetable oil consumption in the EDC, which would cause vegetable oil to be displaced from the EEC, would result in increased competition for U.S.-produced sunflower oil in third markets.

As I have pointed out, our principal competitor in the world sunflower oil market enjoys substantial subsidies, and we are concerned that our market share would erode even further.

If the proposed consumption tax is enacted, we would expect U.S. sunflower seed exports to the EEC to fall. We would expect increased competition in third markets for sunflower oil. The ability of the U.S. crusher to buy sunflower seeds would be adversely affected. Capacity utilization would be even lower than the current 50 percent. Downward pressure would be exerted on sunflower seed prices paid to U.S. farmers and the acreage base of this cash—and I would repeat, cash—crop would be jeopardized.

The EEC must not be permitted to shift even part of the financial burden of reforming its common agricultural policy to the U.S. sunflower industry. We cannot bear it. It would be intolerable.

Our Government must make certain that our strong opposition to the proposal is heard. We are encouraged by the efforts that have already been made. We would urge the unanimous approval of the September 28 Senate resolution calling for strong countermeasures should the Commission's proposals be adopted.

The U.S. Government must continue to take a strong unified stand and be prepared to act to protect U.S. trade interests.

Thank you.

Senator BOSCHWITZ. We will, we will. Now we will hear from Robbin Johnson.

STATEMENT OF ROBBIN S. JOHNSON, VICE PRESIDENT FOR PUBLIC AFFAIRS, CARGILL, INC., ON BEHALF OF THE NATIONAL SOYBEAN PROCESSORS ASSOCIATION

Mr. JOHNSON. Thank you, Mr. Chairman, I will submit this and briefly summarize.[1]

It seems to me that what brought all of us together here this afternoon was a desire to persuade the European Community that it should not unilaterally impose a tax on fats and oils and should not unilaterally limit nongrain feed ingredient imports.

The United States is drawing a pretty tight line here and a very harsh line. I think in the course of the afternoon four kinds of reasons have surfaced for that policy position.

The first is what I call a commercial or economic reason. We ship $2 billion in soybeans, another $2 billion in soybean products,

[1] See p. 57 for the prepared statement of Mr. Johnson.

and $700 million of nongrain feed ingredients to the European Community annually. It is an important market and we want to keep it.

The second is what I would call a trade policy argument. These bindings are among the very few that agriculture has. Once they are breached, the fear is that the precedent is set and will gradually erode our access to that market. And I don't think any of us in agriculture accept the Community's assertion that these actions would not impair the bindings that we have.

The third argument, I think, is a political one, and perhaps Senator Dixon put it best. Agriculture historically has been the linch pin in the support for more liberal trade policies, not just for agriculture, but for industry as well. That support has been eroding, frustrations are building up because of agriculture's trade problems, and the entire agricultural community is watching these particular issues very closely, and, in some sense, it is a political flash point for the U.S. agricultural community.

Finally, I think there is a long-term interest that has underlain a lot of the comments that people have made here, but maybe hasn't surfaced as directly as it should have. The European Community in the last 8 years has emerged as a major export competitor. Their trade balance has shifted from 10 million tons of imports to 12 million tons of exports. Those exports will double in the next 8 years if their policy doesn't change. Agriculture has a long-term interest in seeing some fundamental reform to the common agricultural policy so that we can avoid the conflict that is implicit in the direction of that policy.

There are people within the Community who recognize the need to make fundamental reforms, and I think U.S. policy at this point should be designed to strengthen their hand in their efforts to pursue those reforms.

Senator BOSCHWITZ. How is that done?

Mr. JOHNSON. I think, first, one defends our trade rights, because they do exert pressure on the European Community to fund their deficits from internal resources or else change their policies in more fundamental ways.

I think, second, we ought to draw attention to some of the effects of the CAP. When the Community was a net importer, or not the large exporter that it is today, those subsidies went essentially from taxpayers to other Europeans; through export subsidies they are flowing from Europeans to non-Europeans, and that outflow of $5 to $6 to $7 billion a year of real resources is something that has to become of greater concern to the finance ministries in Western Europe.

Senator BOSCHWITZ. Do you know if our people make that point to them? I presume that they recognize it anyway.

Mr. JOHNSON. I presume they have. One of the curious things is that the consumer movement has not developed in Western Europe to the same extent that it has in the United States, and these kinds of arguments and concerns are ones that would appeal to European consumers, and we all have a role in drawing attention to that.

Senator BOSCHWITZ. Well, you never can tell about these things. You know, of course, the Europeans have known hunger at various

times, and as a result I think that they have a greater willingness to be solicitous of their farmers than we.

Mr. JOHNSON. And I think the history of U.S. policy toward Western Europe has been some tolerance of that. It has been the emergence of enormous surpluses and the dumping of those surpluses with the aid of export subsidies in the last few years that has shifted the tenor of reaction here in the United States.

Senator BOSCHWITZ. It's an amazing thing what farmers can do if they are subsidized. I always point to Japan, which is about the size of Minnesota and North Dakota combined, has not 5 million people as our 2 States do, but 117 or 120 million. Their basic foodstuff is rice, and because they subsidize their farmers to such a degree they even have a rice surplus on that little bit of land, most of which is mountainous and not arable.

So I agree, and we should not expect that Europe will not continue to increase its surpluses, particularly when Secretary Amstutz and others said that they continue even in the face of cost to their programs and the objections that they hear from our side, they increase the prices; then they say there is a net loss in price because it doesn't go up as high as inflation.

Mr. JOHNSON. I might add a small footnote to that. If you adjusted the increase in the grain price supports, for example, for the monetary compensatory amounts, these national currency adjustment factors that exist within the common agricultural policy, the increase in French grain price supports last year was not the 4 to 4.5 percent that was publicized but more on the order of 7 or 8 percent.

So there was still substantial increase in their price support.

I wanted to mention just one last point that I think is involved in the politics of this issue long term. As all of us in the industrial world come out of the most recent recession, I think there are two things that we have learned. One is that our basic industries that are competing—manufacturing industries that are competing—in world markets are going to have to be more competitive. Food is a wage good. And one of the things that the Europeans are going to recognize increasingly is that a high CAP price support policy is a tax on their manufacturing industries; it's a jobs issue for them.

The other is that the developing countries of the world are major growth markets for agriculture and industry, and those countries need to find markets for what they can produce, much of which is agricultural goods. And, as has been mentioned several times today, more and more of the developing countries are beginning to assert their concern about the common agricultural policy, and that is a case that we ought to try to support and reinforce.

Senator BOSCHWITZ. The Treaty of Rome was in the late fifties and it established the European Community, and the Dillon round established which products would have levies and which were exempted, is that correct?

Mr. JOHNSON. The Treaty of Rome, I believe, was signed in 1958; the common agricultural policy was put into shape in 1962. Actually unified price supports under the common agricultural policy for grains came in 1967. The Dillon round was a round of trade negotiations in the early 1960's, and as part of what was going on within the European Community and in those multilateral negotiations

we secured some of these tariff bindings in exchange for stilling some of the objections that we might have had to the variable levy systems.

Senator BOSCHWITZ. Does that conclude your testimony?

Mr. JOHNSON. All done.

Senator BOSCHWITZ. Thank you gentlemen, we will adjourn.

[Whereupon, at 4:29 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF HON. WALTER D. HUDDLESTON
A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, today's hearing is timely and pertains to an important topic for U.S. farmers concerned about proposed actions by the European Community (EC). The testimony will add to public awareness of the consequences of modifications of the EC common agricultural policy that have been proposed by the EC's executive commission. Such modifications could be very damaging to U.S. agriculture and agricultural trading interests. The modifications would be especially damaging to soybean and corn producers and to processors of those commodities.

The EC's executive commission has proposed imposing a tax on domestic consumption of fats and vegetable oils. The effect of this tax would be to discourage use of soybean oil and reduced use would mean a loss of U.S. export sales of soybean oil. Further, the tax would cause a price realignment that would cause soybean meal to be placed at a competitive disadvantage relative to ec-produced protein feeds.

Also, the EC is considering import restrictions on non-grain feed ingredients, including corn gluten feed and citrus pulp.

To express objection to such modifications of the CAP, many members of the Agriculture Committee joined Senator Dixon in introducing S. Res. 233 on September 29, 1983. More than thirty Senators have cosponsored the resolution.

The resolution is a statement by the Senate that, should these proposed modifications be adopted by the Council of Ministers of the European Community, legitimate American trading interests would be adversely affected and, accordingly, these modifications should be vigorously opposed by the United States government.

With the decline in United States agricultural exports in the past two years, it is important that we make every effort to maintain our nation's legitimate trading opportunities and promote fair trade.

American farmers are in financial trouble. Following two years of disastrously low prices, many farmers are experiencing severe hardship from the drought.

Yet, the severe financial problems facing farmers are due, in no small part, to the weak demand in export markets. During

fiscal year 1982, the value and volume of U.S. farm product exports declined for the first time in 13 years. Export volume declined by 2 percent from the previous year and the value of these exports fell 11 percent.

In contrast, during the 1970's, our agricultural exports grew five-fold; from 1981 to 1983 they have declined about one-fifth, from more than $44 billion in 1981 to an estimated total of $34.5 billion in 1983.

We must try to reverse this trend toward less export sales volume. We must work to enhance the ability of the United States to sell its products abroad. We ought to strive for free trade throughout the world, looking toward the elimination of tariffs and trade barriers of all nature. That ultimately is the proper way to go.

I do not think the United States has to be a patsy to the agricultural policies of the rest of the world. We must not sit back and allow our producers to be put at a disadvantage by unfair trade and tariff practices of other countries.

Mr. Chairman, the costs to governments and consumers of protectionist policies are large. Further, such policies distort patterns of trade and divert resources from better economic uses. No one gains from such inefficiencies.

I am hopeful that the Council of Ministers of the European Community will reject the proposals of the Commission.

STATEMENT OF HON. ALAN J. DIXON
A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, on September 29, I introduced, along with 33 of our distinguished colleagues, S. Res. 233, expressing the States agricultural exports of proposals to modify the common agricultural policy of the European Economic Community.

I would have hoped that a resolution of this type would not be necessary, but with the proposals to modify the common agricultural policy now being considered by the European Economic Community, it seems there is no choice. Decades of cooperation are now being challenged by the proposed tax on vegetable oils and fats, and the import restrictions on non-grain feed ingredients.

This resolution is straightforward and to the point. First, it asks the President to communicate with the Council of European Community Ministers, urging them to reject the proposals of the Commission, which seek to shift to other countries the burden of disposing EC agricultural surpluses.

Second, the resolution asks the President to vigorously oppose any of the proposed CAP modifications that would adversely affect our access of agricultural exports to the EC.

This resolution also expresses the sense of the Senate that strong measures should be implemented immediately to protect the legitimate trade interests of the United States if the proposed CAP modifications are adopted.

This issue is of great importance to the American farmer and to the citizens of the United States. It is of great importance to my own state of Illinois, which is the number one state in the production of soybeans and in agricultural exports.

In 1982, nearly half of the United States' $8.4 billion in soybean and soybean product exports were exported to the EC, where they entered duty-free. If the proposed tax on fats and oils is implemented, we will lose much of the EC soybean and soybean product market.

The United States exported less than $200 million of soybean and soybean products to the EC where the zero binding for soybeans and soybean meal was negotiated in 1962. Because imported soybeans and soybean meal are exempt from EC duties, and are less expensive, European feed manufacturers have increased the soybean meal share of processed products.

The use by the EC of soybean oil, which is processed from imported soybeans, has increased in salad oil, cooking oil, and margarine. Soybean oil competes with locally produced EC olive oil and butter.

The EC is proposing to use a discriminatory tax on fats and oils instead of discontinuing the use of import barriers and lowering the minimum internal price guarantees. The revenue generated by the tax would be used to fill the depleted coffers of the EC treasury to continue to support their present agricutural policy. By taxing fats and vegetable oils, and imposing no tax on butter, the effect would be to reduce the use of soybean oil which would also have a similar effect on soybeans and soybean meal.

The net effect of this proposal would be a loss of soybean and soybean meal exports by the United States. This would correspond to a reduction in price to the more than 600,000 American soybean farmers.

In addition to the consumption tax on vegetable oils, which is being contemplated by the EC, there is also under consideration some form of import restrictions on non-grain feed ingredients including corn gluten feed and citrus pulp. This proposal is contained in the EC discussion of reforms in the cereals program. The Commission calls for "a rapid and effective limitation of imports" of these ingredients.

A limit on imports of corn gluten feed by the EC would violate long-standing GATT agreements and threaten a $500 million per

year U.S. export market without materially affecting the internal grain support problems faced by the EC.

Around three million tons of corn gluten feed are exported to the EC annually for use as protein ingredients in feeding livestock. Under GATT rules, these imports, as well as the import of a number of other protein materials, are bound duty-free under agreements reached during the Kennedy round of multilateral trade negotiations.

Corn gluten feed is one of many products used by European animal feeders as protein supplements. Restrictions on its import will not result in a concurrent increase in the amount of EC-produced grains which are fed to livestock. Further, since corn gluten feed exports are only a small part of the total amount of non-grain feed ingredients used by EC animal feeders, other major ingredients, such as soybean meal, could face similar threats in the future when restrictions on corn gluten feed fail to have a material impact on the EC grain situation.

Mr. Chairman, it is imperative that the United States Senate be on record objecting to the potential threat by the Commission of the European Economic Community that would further restrict our access to the EC market.

I look forward to the testimony today and hope that after this hearing that it is clearly understood that there is full cooperation by the Senate Agriculture Committee, the Administration, and the agricultural sector on this vital issue.

STATEMENT OF AMBASSADOR ROBERT E. LIGHTHIZER
DEPUTY U.S. TRADE REPRESENTATIVE

Mr. Chairman, it is a pleasure to appear before you and the other members of the subcommittee this afternoon to discuss an issue that we believe may be one of the most serious to face us in recent history. It is an issue that could impact not only the exports of some important agricultural products but also has the potential to poison the atmosphere between us and the European Community.

I fear, truly fear, that the enormity of the actions they are contemplating has not yet been realized by the policymakers in the member states of the EC or by the EC commission. If this hearing serves to acquaint them with the depth of concern and the certainty of response by the United States, it will have served a very valuable purpose.

In order to paint a clearer picture of what we are up against, let me summarize:

The Commission of the European Community on September 21 announced a set of proposals for reform of the EC Common Agricultural Policy (CAP). The reforms are part of an attempt to

reduce CAP expenditure and avert a budgetary crisis. Under present circumstances, the Community will reach the limit of its budgetary resources toward the end of this year and experience serious financial problems in 1984. The proposed reforms would help reduce the size of the cost overruns and possibly secure the support of certain reluctant member states for contemplated revenue increases.

The most important Commission proposals are as follows:

--the introduction of a quota system for milk;

--a "prudent and in some cases more restrictive" price policy, possibly including the fixing of common prices for a longer period;

--a review of existing direct aids and premiums;

--the automatic dismantlement of monetary compensatory amounts (MAC's) within a fixed period of time;

--the imposition of a consumption tax on vegetable oils;

--restrictions on the import of nongrain feed ingredients, such as corn gluten feed and citrus pellets; and

--a coordinated export strategy, much like the common export policy the EC has considered in the past.

The first four proposals are aimed primarily at domestic EC programs. Of the four, the most significant is the dairy quota system. The Commission suggests the introduction of a quota system, based on 1981 deliveries and enforced by means of a supplementary levy on deliveries in excess of the 1981 total. In addition, there would be a special levy on milk from very intensive dairy farms. Since many such farms depend heavily on imported feed, this provision could have some negative effect on U.S. exports. The suggested cuts in miscellaneous aids and premiums, if adopted by the council, could have some effect on the level of subsidization in some sectors.

The proposals on pricing policy contain very few specific guidelines. The Commission recommends that EC grain prices be aligned with world prices more quickly, but offers no timetable for the completion of the alignment. What constitutes the "prudent" or "restrictive" pricing policy recommended by the Commission would apparently be left up to the council in the annual price package negotiations.

Under the proposals, MCA's would be automatically phased out within a two-three year period following their introduction. The elimination of MCA's effectively raises the level of support prices in weak currency countries and lowers the level in countries with strong currencies.

The last three proposals affect the trading partners of the EC. The proposed fats and oils consumption tax--which would apply to

all fats and oils other than butter--is designed to give added protection to the community olive oil and dairy sectors and yield additional revenue for support of the CAP. The EC imports 80 percent of the fats and oils it consumes--most in the form of soybeans--including about $4 billion in oilseed and productions annually from the United States.

The restrictions on nongrain feed ingredients--such as corn gluten feed and citrus pellets--would be in the form of either quotas or duty increases. The Commission would be forced to negotiate the new arrangements under the general agreement on tariffs and trade (GATT), since the duties on most of those products are bound at the current levels. The United States exports about $700 million worth of nongrain feed ingredients to the EC annually.

The Commission gives few details about the proposed new EC export strategy, but does mention specifically the negotiation of long-term contracts with developing countries, particularly in the Middle East and North Africa.

As I understand the tax on fats and oils, it would become effective Janaury 1, 1983, and be at the level of 7.5 European units of account (ECU's) per 100 kilograms (about four cents per pound) on the consumption of vegetable oils and animal and marine fats, with the exception of butter. The EC Commission estimates that the measure would raise about 600 million ECU's ($510 million) annually in revenue.

According to the Commission's press release, the tax measure would improve oils and fats markets without reducing consumption of vegetable oils and margarine significantly. The press release also states that the measures would not affect the competitive relationship between imported products and those produced in the community. Furthermore, the Commission asserts the tax would be consistent with GATT, would be nondiscriminatory, and would not reduce the value of the zero tariff bindings.

We disagree. The proposed tax would impair the duty-free access for U.S. fats and oils and oilseed products, valued at about $4 billion in 1982. The principle is important; the GATT bindings on soy products were obtained in response to concessions made by the United States during the Dillon round of trade negotiations. At this point, soybeans and meal, along with corn gluten, are the last major U.S. agricultural commodities entering the EC on a zero-duty basis. Soybeans and meal account for almost half of our total agricultural exports to the EC. It is disingenuous and incorrect to suggest that the tax would have no effect. Not only would it affect our exports of soybeans to the EC but the indirect effects on world soybean, and fats and oils markets could be important. Other exporters, e.g., Malaysia and Brazil, would also be affected by the tax. Moreover, as the Commission and the member states are well aware, the free access enjoyed by our soybean trade has great political as well as economic importance, a fact keenly appreciated by the Congress. The EC Commission and the member states should make no mistake,

implementation of the tax would cause the United States to react strongly and concretely through retalization.

Mr. Chairman, it is obvious that the proposals that the EC Commission has made with respect to reducing access to their markets are a result of their unwillingness to make the structural adjustment necessary to bring their supply and demand into balance. They have remarkably high support prices for grains. The result is a large production at a price that the feed compounders and others are unwilling to pay if given a choice. Because of the fact that the United States has a right to duty-free access for soybeans, soybean meal, and certain nongrain feed ingredients, the feed compounders do have a choice--and they exercise it.

Rather than reduce the guarantee prices for grains in order to make domestic production more competitive, the EC proposes to raise the price of imports or to otherwise make them less competitive. They've already done this for manioc, a basic feed ingredient largely supplied by developing countries. Now with these new proposals, they are seeking to shift the burden again. We have made it clear that this course of action is unacceptable. Agricultural exporting countries cannot be expected to bear the burden of EC agricultural policy reform.

The other element is their dairy surplus. They contend that the surplus arises in part from the fact that the lower priced imported protein feeds, such as nongrain feed ingredients, make their dairy cows more efficient and they produce more milk than they would otherwise. The solution for some in the community would be to make dairy cows less efficient by restricting access to the feed ingredients. In addition they would encourage consumption of dairy products by taxing vegetable and other competitive oils. Again shifting the burden to others. Again I say, "No!"

The following quotation from the Association of the Margarine Industry of the EEC countries (IMACE) gives a good summary of the objections to the proposed tax on fats and oils. As this organization points out, the tax will place an unfair burden on both EC consumers and third country exporters (not only the United States but many developing countries) but it will not make any contribution to EC surplus problems.

> "The suggested fat tax is an unfair attempt to solve the problem of one sector by burdening another sector. It is fundamentally wrong to try to alleviate surplus problems in one sector at the expense of another sector. For example, one should not try to solve problems of wine at the expense of beer or problems of Rolls Royce at the expense of VW's.
>
> "A tax on edible oils and fats except butter would make no contribution whatsoever to a structural solution of the problem of dairy surpluses. The dairy problem is, above all, one of structural overproduction of milk (increasing yields per cow, changed calf feeding habits and attractive price levels combined with unlimited intervention buying of butter and skimmed milk powder). Consequently, the solu-

tion to the problem should be found in adjusting supply to demand.

"In addition, in the European Community the tax would lead to a disproportionate and, therefore, unfair sharing of the burden between EEC member states because the countries which are major consumers of margarine and seed oils would be disproportionately hit.

"A tax on oilseeds and vegetable oils would not only penalize producers and consumers of margarine and table oils, but it would also hit the processing industries and the consumers of their products (cakes and biscuits, pastry, sauces and salad dressings, mayonnaises, ices, preserves, chocolate, confectionery, etc.). Altogether, the tax would increase the cost of living. It would not only tend to become permanent, but would also be likely to increase. It would, therefore, increase already high levels of inflation by considerably raising prices of products which belong to the necessities of life, and would particularly hit the low income groups and those who prefer vegetable oils and margarine for dietary reasons. In these respects the tax is anti-social and without any justification whatsoever.

"Imports of vegetable oils (e.g., palm, palmkernel, coconut and groundnut oil) come largely from Africa, Asia, and Latin America. Any tax on oilseeds and vegetable oils may therefore lead to a reduction of exports--and export receipts--of these countries. This would seem particularly unjustified at a time when the community increasingly aims at promoting the development of the third world.

"Apart from being contrary to generally adopted UNCTAD (United Nations Conference on Trade and Development) and FAO (Food and Agriculture Organization) principles that no new trade barriers should be established against exports from developing countries and that consumer taxes on products imported from developing countries should be abolished, the tax would contravene the lome treaty because it would nullify the free entry of vegetable oils and oilseeds into the European Community, which under this treaty has been granted to the African, Caribbean and Pacific countries. These include major exporters of vegetable oils such as Senegal and Ivory Coast.

"In addition, the tax would be contrary to the General System of Preferences (GSP), benefitting all developing countries, as it would be facto undermine any preferential duties granted under the system to vegetable oils.

"Any levy or tax on oilseeds and vegetable oils would be flatly against the commitments concerning duties on these products within the GATT. It could therefore easily trigger a trade war with the USA, at a time when trade relations are already strained because of an upsurge of protectionism on both sides of the Atlantic.

"Often a tax on oils and fats is advocated because of the desirability of reducing the soya meal content in cattlefeed (because of its claimed impact on dairy production). This argument is unjustified because:

" --the usage soya meal in dairy cattlefeed is limited to 10 to 15 percent of the total soymeal consumption in several countries of the community. Currently, hardly any soya meal is used in cattlefeed."

" --soya meal forms only part of the composition of compound feed and a tax would, therefore, have to be extremely high before becoming a disincentive to its use in cattlefeed."

" --most soya meal goes into pig and poultry feed; therefore, rather than discouraging dairy production, a tax would mainly hit producers and consumers of all pig and poultry based products."

"Providing financing for the support of EEC grown oilseeds has also been used as an argument for a tax on oils and fats. The margarine industry rejects this idea and supports the view that the CAP should be financed from general means and not from haphazardly burdening individual products."

I think that statement says a great deal about the way we feel, too. The reference to a trade war is particularly appropriate. Neither the margarine manufactures nor the government of the United States wants one. But they--and we--see the potential for one in the future if the EC follows through on its attempts to limit access or otherwise restrict our exports of nongrain feed ingredients or soybeans and products.

Sure, the general agreement on tariffs and trade allows a country to alter the terms of access it has promised on a product. That's article XXVIII. It also allows the affected countries to "restore the balance of concessions." If they do take measures to restrict access, therefore, we will have to take countermeasures to restore this balance. It's that simple.

As I noted at the outset, the EC market is essentially closed to the great bulk of the products we want to ship to them. The glaring exceptions are those products that are now under consideration for restrictive measures. We simply cannot permit these few remaining products to go the way of others that have come up against the "vice-like grip of the CAP".

The EC Commission estimates that $600 million in additional revenue will be generated from the fats and oils tax. They do not cite the savings they intend by restricting imports of corn gluten feed, but I would wager that in neither case have they considered the loss in revenue to them that trade retaliation by the United States and other countries would cause. I think the message we should send them is that they should count on adding this cost into their balance sheets. It is my hope that in doing

so they will redraft their reform proposals to deal with what caused their budgetary dilemma in the first place, namely, domestic price support levels which are uneconomically high.

Mr. Chairman, I think with that I will close my prepared remarks and make myself available for any questions you or the other subcommittee members might have.

Thank you.

STATEMENT OF RICHARD T. MCCORMACK
ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Introduction

I am pleased to be here today to discuss agricultural trade issues. Specifically, I want to discuss the challenge posed to our agricultural trade by the proposed changes in the European Community's Common Agricultural Policy. I also wish to describe the response to that challenge by this Administration, in which the State Department has undertaken to advance our interests in this area.

Agriculture has grown significantly in importance to our foreign relations in recent years. As our trade has grown, the defense and expansion of our agricultural trade has become a key foreign policy objective. Export earnings of our agricultural products have a healthy multiplier effect on our economy, stimulating domestic economic activity and providing employment for an estimated additional 1,300,000 workers in agricultural production and agriculture-related industries. In response to the comparative advantage in agricultural production which the United States enjoys, nearly 40 percent of total harvested U.S. cropland is devoted to production for export.

With the increased participation of our farmers in the world economy, increasingly farm earnings are directly affected by such diverse phenenoma as drought in Africa, political tensions with the USSR, world recession, indebtedness in the developing countries, the value of the dollar abroad, barriers to foreign markets and subsidized export competition from other agricultural producers.

The State Department plays only a minor role in domestic commodity programs, but we can and do help resolve international agricultural issues in several ways:

-- we participate in efforts to reduce and eliminate trade barriers other countries erect against U.S. farm products;
-- we help combat unfair competition from subsidized exports;
-- we assist in resolving trade disputes between U.S. agricutural exporters and importing buyers and countries;
-- we support USDA's market development efforts through our embassies and our own contracts with foreign officials;

-- we help in efforts to alleviate the indebtedness problems faced by many developing countries, which have been the major source of export growth in recent years; and
-- we help ensure that the U.S. is perceived abroad as a reliable and trustworthy supplier of agricultural commodities.

Our effectiveness is part of the mainstream of our agendas with foreign governments. When the State Department, USDA and USTR speak with one voice, such as we have on issues related to agricutural trade with the European Community, the message we transmit to other governments is reinforced.

U.S.-EC Issues

Turning now to the our agricultural trade relations with the EC, today we face a severe challenge to the general orientation and aspirations of our agricultural trade policy: the European Community's recent proposals to reform their Common Agricultural Policy. The stakes are large. The EC is U.S. agriculture's largest export market; at the same time, it is our leading competitor in international agricultural trade. Roughly one-fourth of U.S. farmers' market income depends on this trade, and decisions which Europe makes in the course of the CAP review are of prime importance to us.

Let me briefly summarize the proposals which the Commission has advanced to deal with swelling production and out-of-control farm program spending:

-- an internal quota system to limit milk production and levies to ensure that the producer shares in the cost of disposing of surpluses;
-- a "prudent and in some cases more restrictive farm price policy";
-- narrowing of the gap between EC internal grain prices and world prices;
-- a review of existing direct production and consumption subsidies;
-- dismantling of monetary compensatory amounts (MCA's) within a fixed period of time. These are special duties and subsidies on trade between member states to account for exchange rate changes;
-- a new, aggressive and coordinated export strategy, probably much like the Common Export Policy the EC has considered in the past;
-- imposing a consumption tax on oils and fats, other than butter; and
-- new restrictions on the import of non-grain feed ingredients, such as corn gluten feed and citrus pellets, and on other products (principally meats).

Although not included in the Commission's agricultural reform package, there is strong sentiment for a parallel effort to increase substantially EC financial resources, most of which would be used to support the CAP, perhaps by increasing the percentage of tax revenues now contributed by member countries to the EC budget.

Most of these proposals are not new; many have been discussed singly or were part of previous abortive CAP reform efforts. The Commission's proposals are instructive also for what they do not include. The prices of the main surplus products, including cereals and dairy products, will not be frozen or reduced, much less be allowed to reflect market forces. There is no commitment to ensure that the cost of the CAP grows more slowly than the Community budget, and many believe that agricutural spending will grow faster than the budget, even with the proposed reforms. Not suprisingly, support for increasing budgetary revenues is large. What this portends is that European budgetary problems will not be solved by reforming present policies but by increasing EC taxes.

As the proposals now stand, and they are bound to be changed during the internal debate now in progress, our fear is that CAP reform will:

-- fail to deal with the fundamental problem of structural overproduction;
-- further isolate EC agriculture from world prices and market trends;
-- result in higher food prices in Europe;
-- divert scarce European capital and investment from much-needed social, industrial and technical development;
-- fail to control soaring CAP costs; and
-- guarantee continued surpluses which must be disposed of on the world market through export subsidies.

Thus, the burden of the CAP will rise and continue to be borne by the Community's consumers and by non-EC agricultural producers and exporters, including the U.S.

Nevertheless, some of the Commission's proposals are encouraging, if only for the direction they go in. In the dairy sector, the EC supports production at a level well above market-clearing prices and has, in the process, accumulated large stocks of dairy products, even surpassing our own. Outlays on their dairy program comprise fully 30 percent of CAP expenditures. We are encouraged to note the resolve on the part of the EC to make real cutbacks in this area. We are also heartened by the Commission's stated intention to narrow the price gap between EC and world grain prices. Concrete results here would address the fundamental issues that concern us. But we have been extremely disappointed by the gap between intentions and results in this area in the past.

We are adamantly and sharply opposed to the proposals that deal primarily with the EC's role in the international marketplace: a new export policy, a tax on fats and oils and limitations on imports. Rather than moving towards elimination of trade-distorting practices, we fear we are seeing a consolidation of trends to which we have objected strongly over the years.

The proposals to restrict imports of non-grain feed ingredients and to impose a consumption tax on oils and fats, excluding butter, represent clear threats to our historic role as a sup-

plier to the EC. In return for concessions which the U.S. made to the EC during the Dillon Round of trade negotiations, we received their pledge to permit access to their markets duty-free or at agreed-upon rates of tariffs. The CAP reform measures would impair that pledge, closing off virtually the final avenue for agricultural products to gain unregulated access to the European market. They are clearly inconsistent with pledges made at the Williamsburg Summit and elsewhere to avoid protectionism.

We have carried our concerns to the EC on many levels and in many fora. We have made a number of strong and direct formal representations to the EC and to the member states through our missions abroad. We have called in EC Embassy officers in Washington to reinforce our message throgh diplomatic channels. During the Secretary's bilateral meeting with European foreign ministers at the U.N. General Assembly, he stressed the potential for serious confrontation and stressed the need for the Community to act responsibly to avert conflict. Similar messages have been carried by other U.S. cabinet officers and by officials of all agencies in their contacts with European decision-makers.

While we oppose CAP reform measures that would restrict our current access, we have made clear that we have a great interest in serious CAP reform that would reduce EC competition with our exports in third markets. We must encourage those measures, however vague and tentative, that promote production reform while we make clear that we will respond should they adopt protectionism as the answer.

Our efforts have been buttressed and reinforced by others, domestically in the U.S. and abroad. Our industry and agricultural sector have worked diligently with customers and representatives abroad. We are pleased that the Congress is moving rapidly to support our efforts to ensure that European measures do not affect U.S. trade interests. Senate Resolution 233, and its counterpart in the House of Representatives, are helpful in reminding the EC of our determination and our concerns. Other countries have been vocal as well. Other major agricultural exporting countries, such as Canada, Australia and New Zealand, have made their concerns known to the EC. The developing countries have added their voices. At a recent meeting at the Food and Agriculture Organization in Rome, representatives of developing country vegetable oil exporters and other bitterly denounced European plans to impose a tax on fats and oils, and urged the member states to reject the Commission's proposals.

Conclusion

In my remarks, I have sought to describe the role of the Department in agricultural trade issues generally and specifically, in addressing European agricultural reform, the greatest challenge facing American agricultural trade today. I have emphasized the need for unity, and for a prudent, credible and firm response to European protectionism and efforts to expand the burden of European agricultural programs to other exporting countries. We must recall that our agricultural trade problems with the EC reflect the fundamentally different agricultural sup-

port philosophies which have evolved on either side of the Atlantic. This dispute will not be solved overnight, but requires continued priority on the foreign policy agenda if further progress is to be made. We must continue to keep our views before the Community and the member states, letting them know that implementation of those measures now on the table could result in a trade war. We have urged the Community not to take precipitate action; no occasion exists for us to do so either, at the present time. We look to your help, support and understanding in this effort.

STATEMENT OF JOHN STEVENSON
PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION

I am John Stevenson, a corn and livestock farmer from Circleville, Ohio, and the President of the Board of Directors of the National Corn Growers Association (NCGA). Mr. Chairman, I appreciate the opportunity to meet with you today to express the concerns of U.S. corn farmers about the agricultural policies of the European Economic Community and the effects they have on the trade of U.S. agricultural commodities.

As you well know, expanded agricultural trade is vital to the economic prosperity of the United States. In the past ten years, agricultural exports have returned $230.7 billion to the U.S. economy, thereby maintaining a positive agricultural trade balance, the only U.S. industry that can lay claim to such remarkable achievements. More fundamental, however, is the dependency of American farmers on the export market to ensure a reasonable level of income on the basis of efficient production and modern farm management. Without sustained U.S. farm exports to meet the food and fiber demands of the world, U.S. farmers are forced to look for income support from other sources, a measure that generally results in decreased production and an inefficient use of the most valuable resource in the United States.

Fortunately, we have continued to overcome the multitude of natural and artificial barriers that have affected U.S. agricultural exports. In 1975, just eight years ago, U.S. corn and corn by-product exports totaled 1.7 billion bushels, with an estimated value of $4.4 billion. In comparison, in the 1980/81 season, the United States exported 2.4 billion bushels of corn and corn by-products valued at $9.5 billion. These remarkable achievements are a credit to the efficiencies of American agriculture and the tremendous dedication of those involved in the production, processing, and transportation of U.S. agricultural products. The success we have enjoyed has been spurred on by the dependence we have on the export market for vast quantities of U.S. agricultural products, as well as the natural obstacles that have arisen from the challenges of moving large quantities of agricultural products onto the world market. However, we must also recognize the artificial barriers that have impeded expanded international trade and examine these issues to determine the ex-

isting and potential effects they may have on U.S. agricultural exports.

The issues that bring us here today have caused immediate concern to those associated with the U.S. corn industry. Various reports recently emanating from the European Economic Community (EEC) indicate that future attempts will be made to restrict the level of U.S. corn by-product exports to the EEC.

Under the General Agreement on Tariffs and Trade (GATT), there have been a series of international tariff and trade negotiations during which comprehensive tariff and non-tariff barriers have been lowered and fixed among various trading countries. At the "Kennedy" round of tariffs and trade negotiations in 1967, the United States negotiated a "zero-duty import concession" on corn gluten feed from the European Economic Community (EEC). Since that time, the U.S. export volume of corn gluten feed to the European countries has grown to an annual amount of three (3) million tons. During 1980, the total value of U.S. corn gluten feed to the European countries was approximately $500 million.

The EEC Commission has now requested authority from the EEC Council of Ministers to put into place import restrictions to prevent any further growth in the importation of corn gluten feed. The United States is the overwhelming supplier of corn gluten feed. The United States is the overwhelming supplier of corn gluten feed to not only the European countries but to the world market as well. The proposed EEC Commission corn gluten feed import regime would be designed to allow the 1981 volume of imports to enter the EEC countries duty-free at the three (3) million-ton level, but to impose a variable import levy on any additional import volumes greater than three (3) million tons.

Under the General Agreement on Tariffs and Trade (GATT), the European Economic Community has legal recourse under Article XXVIII to withhold, withdraw and/or to modify previous tariff and trade concessions. This Article reads, in part:

ARTICLE XXVIII

Modification of Schedules

> 1. On the first day of each three-year period..., a contracting party...may, by negotiation and agreement with any contracting party with which such concession was initially negotiated and with any other contracting party determined by the CONTRACTING PARTIES to have a principal supplying interest..., and subject to consultation with any other contracting party determined by the CONTRACTING PARTIES to have a substantial interest in such concession, modify or withdraw a concession included in the appropriate Schedule annexed to this Agreement.
>
> 2. In such negotiations and agreement, which may include provision for compensatory adjustment

> with respect to other products, the contracting parties concerned shall endeavor to maintain a general level of reciprocal and mutally advantageous concessions not less favorable to trade than provided for in this Agreement prior to such negotiations.
>
> 3. (a) If agreement between the contracting parties primarily concerned cannot be reached before 1 January...or before the expiration of a period envisaged in paragraph 1 of this Article, the contracting party which proposes to modify or withdraw the concession shall, nevertheless, be free to do so and if such action is taken, any contracting party with which such concession was initi lly negotiated...shall then be free not later than six months after such action is taken, to withdraw...substantially equivalent concessions initially negotiated with the applicant contracting party.

The United States has three options to pursue in the event the EEC Council of Ministers votes to grant the EEC Commission the authority to regulate the importation of corn gluten feed: (1) to negotiate with the European Economic Community another set of tariff concessions on U.S. exports to the European countries "substantially equivalent" in value and volume lost from the modification of the "zero-duty binding" on corn gluten feed; (2) to withdraw unilaterally an equivalent concession in value and volume of previous U.S. tariff concessions to the European Economic Community; or (3) to employ the proposed EEC action as the beginning debate over the value and efficacy of the General Agreement on Tariffs and Trade to govern international agricultural trade.

The short and long-term implications for the proposed EEC import restrictions on corn gluten feed are far greater than just the imposition of an EEC variable import levy on corn gluten feed at a trigger volume of three (3) million tons reached each year. The concern of the EEC Commission is to prevent any further growth of corn by-products and near-grain substitutes, such as manioc, tapioca, etc. The EEC Commission request for this authority can be interpreted to include various other by-products of corn--distiller's dried grain, high fructose corn syrup, etc. Consequently, the United States may not view the EEC Commission initiative simply as an attempt to regulate the importation of corn gluten feed. One only has to cite the EEC-Thailand agreement that put into place a voluntary export commitment by Thailand to hold tapioca exports to the European countries at no more than five (5) million tons a year. And, moreover, the EEC Commission initiative could well lay the precedent for attempting to restrain the level of U.S. soybean and soya product exports to the European Economic Community.

Irrespective of the ultimate decision by the EEC Council of Ministers about the request to restrict corn gluten feed imports to no more than (3) million tons each year--irrespective because

of the clear legality under the General Agreement on Tariffs and Trade--such an EEC import regime on corn gluten feed would have additional domestic and international implication for the U.S. corn industry, particularly growers and processors.

With export access to the largest importer of corn gluten feed limited, the U.S. domestic processors would lose the opportunity for export expansion of corn by-products resulting from the potential growth in the U.S. sweeteners industry for high fructose corn syrup. Without a significant domestic or international export outlet for the by-products of corn utilized in industrial consumption, the price incentive for greater production of high fructose corn syrup is substantially negated.

Moreover, the sustained use of EEC export subsidies for moving increasingly significant volumes of sugar (sucrose) into world markets will only become more financially onerous to the European Economic Community. With increased volume of high fructose corn syrup displacing sucrose consumption in the United States, world sugar prices remain low and require even larger EEC sugar export subsidies to bring the higher domestic price of EEC sugar to the distressed world sugar price level. Consequently, the proposed EEC Commission request for authority to restrict corn gluten feed imports will encourage greater sucrose sugar consumption in both the United States and several developed-country foreign markets, increasing consumption and price of sucrose sugar to alleviate the growth in EEC export subsidies to move surplus EEC sugar into world markets.

The sustained utilization of sucrose by developed countries such as Japan, the Republic of China, and others, due to price considerations will only serve to inhibit the natural growth in use of high fructose corn syrup. The countries cited above have on numerous occasions expressed interest in developing the technological base necessary for the commercial production of corn sweeteners. Therefore, not only will the prospects for exports of processed corn sweeteners to these markets be impaired, the potential for increased exports of corn as grain for in-country processing may be lost.

The use of variable import levies by the EEC is certainly not a new development, but rather indicative of the restrictive tendencies of the Common Agricultural Policy (CAP) adopted by the member countries of the EEC. In order to properly assess the impact that reduced corn by-product exports would have on U.S. corn farmers and the entire U.S. corn industry, we first must examine the past export levels of gluten feed produced by the U.S. corn wet milling industry in terms of both volume and value. The table below outlines the levels of corn gluten feed and meal exports to all destinations for the 1971/72 marketing year through the 1981/82 year, including a partial listing for the 1980/81 season. In addition, we have indicated the percentage volume share of corn gluten feed and meal exports that were destined to the European Economic Community.

U.S. Exports of Corn Gluten Feed and Meal

	All Destinations		ECC
	1,000 Metric Tons	Million Dollars	1,000 Metric Tons
1971/72	338.0	21.7	327.0
1972/73	731.0	62.2	715.0
1973/74	765.0	86.9	743.0
1974/75	784.0	88.9	765.0
1975/76	977.0	117.5	952.0
1976/77	1,364.0	187.8	1,323.0
1977/78	1,631.0	208.5	1,601.0
1978/79	1,843.0	290.5	1,832.0
1979/80	2,461.0	414.0	2,456.0
1980/81	2,493.0	405.0	2,473.0
1981/82	2,629.0	437.0	2,624.0

* October-August

As you can see from the above data, we have experienced a steady increase in both the volume and value of corn gluten feed and meal exports from the United States the past several years. Since the 1971/72 marketing season, annual exports have increased by more than 2 million tons, or 740 percent, and have increased in value by more than $375 million. Even more revealing is the fact that corn gluten feed and meal exports to the EEC over the past ten years have, on the average, accounted for 98 percent of the total volume exported. Obviously, any disruption in the flow of corn gluten feed and meal from the United States would have serious effects, not only in the immediate sense in terms of reduced exports, but also through the effects of reduced demand in the long term and the impact this would have on various sectors of the U.S. corn industry.

Corn gluten feed is a medium protein feed and one of several by-products produced by the corn wet milling industry in the manufacture of its primary product, corn starch. The corn starch is utilized in its basic form or is further processed into corn sweeteners or into fuel alcohol. The wet milling industry in the United States has emerged as a major market for corn through the increased demand for corn sweeteners, which have moved from 23 percent of the total caloric sweetener market in 1975 to 32 percent in 1980, and also by increased utilization of fuel alcohol. As demand for these products continues to increase, so will the production of corn by-products such as corn gluten feed and meal. Therefore, the importance of the export market as a final destination for these by-products will continue to grow, and will remain a vital economic element to the sustained success of the industry. Inasmuch as the U.S. corn industry must continue to look abroad for expanded markets for the basic and semi-processed commodities, it is crucial that we strive to overcome the natural and artificial barriers that exist to expanded international trade.

We readily recognize the great success that has been achieved in increased world trade, and applaud the efforts of the international community to achieve a fairer, more open, world trading

system. These efforts were highlighted by the successful conclusion of the Tokyo Round of Multilateral Trade Negotiations in 1979, wherein attempts were to remove specific barriers to trade and to develop new rules to govern the international trading system. However, notwithstanding the many accomplishments of these negotiations, barriers to expanded international trade still persist and will continue in the years ahead unless equitable solutions to these difficult problems are found. In addressing the issue we have discussed here today, the U.S. Agricultural Counselor to France recently stated in a prepared report on the use of nongrain feeds and silages in France,

> "The Socialist Government has indicated interest in increasing French agricultural exports and reducing the dependence on agricultural imports. It is difficult to evaulate what type of changes in French and EEC agricultural policies would be required to accomplish this objective without creating serious consequences for the present patterns of world agricultural trade."

Consequently, we must continue to resist vigorously any further EEC measures to impose artificial barriers to expanded international trade and move forward with the purpose of expanding U.S. agricultural exports. There are many reasons we continue our efforts to achieve this objective, the most important of which are: (1) to assure a realistic income return to producers on the basis of production and management investment; (2) to realize the return from these farm exports as a significantly positive factor in the current balance of trade situation; (3) to reaffirm that the United States is the preponderant source and a reliable supplier of major agricultural commodities at any time throughout any year; and (4) to utilize efficiently our uniquely valuable resources to meet the growing demand for the food and feed needs of the world.

We applaud the efforts of you and your colleagues in holding these hearings today. In addition, we completely support the Senate Resolution (S.R. 233) introduced by Senator Dixon and 26 of his colleagues, which should send a signal to European officials that these issues are critical and important to U.S. agriculture.

STATEMENT OF ROBBIN S. JOHNSON, VICE PRESIDENT FOR PUBLIC AFFAIRS, CARGIL, INC., ON BEHALF OF THE NATIONAL SOYBEAN PROCESSORS ASSOCIATION

Mr. Chairman, my name is Robbin S. Johnson. I am Vice President of Public Affairs for Cargill, Inc. and am appearing today on behalf of the National Soybean Processors Association (NSPA). Mr. Donald H. Leavenworth, Chairman of NSPA, was unable to testify. He is currently in Moscow with others from NSPA trying to develop that important market for U.S. soybean meal. I appreciate this opportunity to discuss with you an issue of profound

concern to the U.S. soybean processing industry: the EEC's proposed consumption tax on vegetable oils and fats.

NSPA is the association of America's soybean processors. Our members process and market more than 95 percent of all soybeans crushed within the continental United States.

Exports are the lifeblood of our industry. In the most recent marketing year, we exported $1.5 billion of soybean meal and $0.4 billion of soybean oil.

No export market is more important for U.S. soybean products than the European Economic Community. We have been able to develop the market largely because of the zero tariff binding the United States negotiated on soybeans and soybean meal twenty years ago. Because of those bindings, we now send about 50 percent of our exports to the EEC. In 1982, U.S. exports of soybeans and soybean products to the Community amounted to $4 billion.

This is an important market for U.S. producers and processors, one that the United States understandably defends vigorously against any threatened impairment of its binding rights on soybeans and soybean meal. As the Committee knows, this is not the first time that market access has been jeopardized by proposed EEC measures.

This most recent proposal, announced by the Commission on September 21, is especially disturbing, however. It has been included in a package of proposals designed to relieve the mounting budgetary pressures on the EEC's Common Agricultural Policy. This is a popular goal within the Community.

The specifics of the recently announced package are still somewhat unclear. We do know, however, that the proposed consumption tax on vegetable oils as well as the restrictions on the import of nongrain feed ingredients, such as corn gluten feed, figure prominently in the package.

Let me share with you my understanding of the proposed tax on vegetable oils and fats. The tax would become effective in just over 2 months, on January 1, 1984. It would be levied at a rate of 7.5 European Currency Units (ECU's) per one hundred kilograms--roughly three cents per pound--on the consumption of vegetable oils and animal and marine fats, with the exception of butter. The EEC Commission estimates that the measure would raise about 600 million ECU's, or $510 million, annually in revenue.

What would be the impact of this tax if enacted?

The EEC Commission argues that the tax would not affect the competitive relationship between imported products and those produced within the Community and that it would not reduce the value of our zero tariff binding. Both claims are manifestly inaccurate.

The proposed tax is designed to raise EEC revenues to finance the continuation of a regime of excessively generous price supports. It will also reduce the competitive position of oils and fats that compete with excessively supported butterfat. Since most (about 85 percent) of the raw materials from which these vegetable oils are derived are imported, the effect is to discriminate against imports and impair the value of our duty-free binding rights.

The seriousness of such an impairment cannot be overstated. Our GATT bindings of soybeans and soybean meal were obtained in response to concessions made by the United States during the Dillon round of trade negotiations. Soybeans and soybean meal are among the few agricultural commodities that enter the community on a zero duty basis. This heightens the political and economic importance of our tariff rights. Not even the smallest encroachment of these rights can be permitted.

It has been aptly said that encroachment of any kind would be "the foot in the soybean door." Once the principle is breached, the precedent for further trade restrictive actions is in place. As just one example, the tax could be increased in subsequent years. The risk is that successive actions will steadily erode the value of these bindings. And binding impairments by the EEC may well serve as precedent to be followed by other vegetable oil-surplus nations. In short, the recently proposed tax or any other form of binding impairment would have serious and broad ramifications.

If the EEC believes that structural adjustments in the CAP are necessary, the costs of those adjustments should be borne solely by the EEC. The United States should not allow the Commission to shift the burdens of its problem from EEC finance ministries to the soybean farmers and processors of America. This, I believe, is one of the central messages that must be conveyed to the Community.

As this Committee knows, our industry--like much of U.S. agriculture--faces a proliferation of unfair trade practices. Agriculture's export problems are serious and need attention. To maintain agriculture's traditional support for America's liberal trade policy, the government must take credible steps to discipline these unfair practices. The purpose of such steps would not be confrontation but reform of policies that unfairly disadvantage U.S. agricultural trade.

For these reasons, the U.S. government must exercise every available power to persuade the Community not to impose this proposed tax. We are heartened by the efforts taken to date. This hearing and others held recently are themselves an effective expression of Congress' concern. Equally effective is the Senate resolution introduced on September 29 with over thirty cosponsors calling for strong countermeasures should the Commission proposals be adopted. To convince the Community of the United States' seriousness, we hope that the resolution will be unanimously approved. The same message should be repeated over and over again at the highest levels of our government.

Above all, the Commission must be put on clear notice that any action taken to impair our valued soybean and soybean meal bindings would provoke immediate, effective countermeasures by the United States. This country would be fully authorized under international law to take such countermeasures and it must exercise those rights. To do otherwise would irreparably weaken U.S. strength and credibility in dealing with foreign trade problems in the future.

No one on either side of the Atlantic wants a trade war. We sincerely hope, therefore, that the depth of U.S. concern and our adamant commitment to retaliate if necessary will persuade the Community to withdraw its ill-considered, potentially explosive tax proposal.

Mr. Chairman, that concludes my remarks, I will be happy to answer any questions that the Committee might have.

STATEMENT OF NORTH AMERICAN EXPORT GRAIN ASSOCIATION, INC.

The North American Export Grain Association is an organization comprised of 34 of the leading exporters of U.S. grain. Our members are both private stock companies and grain cooperatives, both large and small. Together they account for probably more than 90% of the total exports of U.S. grain. They are, therefore, and quite obviously, interested in any issue which touches grain exporting from the United States.

Grain trade between the United States and the European Community has been a frustrating experience for most of us in the industry. It is difficult because the United States' complaints about unfair competition for the Community are well justified; yet, because of the timing the United States is now almost powerless to act on them. The European Community has existed for several decades, and the Common Agricultural Policy, which is the cause of the current problems, for almost 20 years. The United States has viewed this problem essentially with some measured and only periodic annoyance but chiefly with patience. It is only in years when the United States has had problems with its exports that we have registered complaints, but they have not lasted long and their thrust has been muted by the U.S. State Department, which has in the past viewed the EC as a political ally and never until recently, as a threatening economic entity. Today, the U.S. views the EC more critically and has become more conscious of the fact that it has a CAP. But by this time the EC is well set in its trading practices and fiercely defends the Common Agriculture Policy, which it maintains is essentially the glue which holds the West European countries together.

Much can be said about the fact that it is hardly a glue and that it is not really holding anyone or anything together. It would, in fact, more tend to divide the countries were it not for constant patching efforts by the members. When there are currency fluctuations, for example, there can hardly be a common

price unless the countries institute a complex system of tariffs and taxes at the various borders. And they have conceived of such a system and put it into effect.

But after having tolerated the EC's actions in agriculture for the past 20 years it becomes quite difficult suddenly to indicate that they are intolerable. The United States cannot pretend to be shocked that the EC is exporting grain, for the United States should have easily foreseen the growth in EC grain production some years ago. And unless EC grain consumption increases by a like quantity and at a similar rate, it is forced to export. For the domestic production increases have exceeded not only the EC's consumption requirements but have provided large surpluses which must, in fact, be exported. Even if it were possible to consume all the grains in the Community by putting them in animal feed rations, this would mean that the Community would be importing that much less or virtually nothing from the United States. Once produced EC grain will compete with U.S. grain in one market or another.

The other factor which makes it difficult to complain about the CAP is that it is not U.S. policy to interfere in another country's or group of countries' domestic agricultural policies. But the problem lies in the fact that the EC has a domestic agriculture policy which, when seen from even their own point of view, is totally unsound economically. If the EC is to continue to live in a world of other nations it cannot continue a policy which tends to ignore the needs and rights of the other nations in the pursuit of only its own farmers, ignoring even its own non-farm segment.

Simply speaking, the EC has established artificially higher prices for the cereals which it grows and then sets a daily, variable levy rate to make up the difference between its own prices and the world prices, so that they cannot be imported at prices less than the EC's domestic prices. When it wishes to do so or must do so it exports grain but must then pay export subsidies or restitutions in order to make its grains competitive in a world market where prices are lower than they are in the EC. It has used the monies from its levies on imports to help pay the export subsidies. It does not normally export grains during world grain shortages (assuming it also has a shortage) but is highly competitive when there is a world grain glut (assuming, again, that its own grains are in surplus). It, therefore, does not serve the world markets but tends merely to depress prices when world prices are already low. In the meantime, the high prices it pays its own farmers for producing grain have stimulated production to the extent that it now too has a large grain surplus which it has been exporting through benefit of subsidies.

In this way the Community helps subsidize consumers in other countries at the expense of its own citizens. Its citizens pay the cost of the Common Agricultural Policy twice: They pay into the Common Agricultural Fund to help subsidize production for which they must then pay a higher price. They are again taxed when the Community exports grain.

The current situation is quite a difficult one for the Community, for the subsidies it pays to export grain must of need be high because world prices are low. When it competes with the United States, as it does, it serves to drive down U.S. and world grain prices, forcing an even higher subsidy to be paid within the Community. In this way it is essentially driving down the prices at which it must sell, while at the same time driving higher the cost of its subsidy program.

It is this situation which is leading to some changed thinking within the Community. Its situation is impossible, for its agriculture is continuing to cost more and more money, and its production continues to increase. It too has had economic problems; indeed the U.S. recovery is the strongest of those within the developed countries. The EC now finds itself under such severe financial pressure it is itself considering some changes in its agricultural policy. In time it must force itself to accept the inevitable: It must discontinue granting price increases to its farmers; and must, in fact, consider decreasing farm prices.

Yet this is action which the Community continues to delay facing. It is, amusingly enough, essentially the same sort of action which the Community has recommended to the United States with various delegations to the United States within the past year. The Community has suggested that the United States should turn the other cheek or look the other way, that the Community is trying to find its way out of its problems and that the farm bloc in the Community is politically powerful. The same can be said of the United States.

But the United States has not played a positive role in its discussions with the European Community. Far from accomplishing anything positive in its repeated beating on the EC, the United States has probably helped weld greater unity of purpose within the EC. The pressures from within the EC are mounting, and a quieter approach from the United States, suggesting how the EC is merely postponing the inevitable and how its own interests would be better served, would probably be more successful than an angry tirade.

This does not indicate that the EC has not been practicing protectionist policies, for its entire agricultural policy is protectionistic. What this does indicate, however, is that the United States has sat by too long while the EC practiced its policy. It is somewhat late to be taking a firm position. The U.S.'s position is further complicated by the fact that the last Administration actually gave its blessing to the CAP, indicating we should recognize it as a fact of life. It went even further, and negotiated into the final documents of the Kennedy Round its acceptance of the policy. It is this fact, plus the letter sent the Community under signature of Bob Strauss, former Presidental Special Trade Representative, which the Community continues to present to the United States to counter the U.S.'s accusations.

At the present time the EC is attempting to restrict the imports of various forms of non-grain feed ingredients which have been coming into the Community without levies. These non-grain

ingredients have been the obvious answer to the Community's high pricing on imports of grains, and they replace feedgrains in the feed rations, creating surpluses of domestically produced grains and less need for imported grains. This means that the United States exports less grain to the Community and must meet more EC grain as competition in the world markets if the current policy continues. The United States must, nevertheless, protest this new form of protectionism from the Community if it is to gain credibility in its contesting the overall policies of the Community. Actually, a large part of the non-grain feeding ingredients come from the United States, but some of it is also from other world suppliers.

On the other hand, the Community is also proposing a tax on domestic consumption of oilseed products, such as margarine which is chiefly made from corn oil, soybean and sunflower seed oils. The Europeans argue that this is a domestic matter and that it does not cost anyone anything. This is absurd, for everything costs someone something, and in this case the measures are designed to discourage the consumption of oilseed products, which are imported, in favor of butter consumption, which is domestic. It is merely another form of protectionism from the Community which must be condemned and resisted by the United States. It would have an unfavorable impact on the Community's imports of soybeans from the United States. It has not been covered in the original U.S. controversies with the Community and should not be permitted.

If the Community should continue with this policy--and it is highly likely that it will--the United States will be on firm record as having opposed it and not having given it its blessing. It is but a further defense of a very complex domestic agricultual policy, and again I stress that the only way to achieve any form of fair world trade from the EC would be to have the EC revise its domestic agricultural policy, which it indicates it cannot and will not do.

If the Community does, in fact, resist the U.S. efforts and restricts the imports on non-grain feed ingredients and imposes a domestic consumption tax on oilseeds and their products, the United States should then consider what other forms of trade assistance it can undertake to increase its own exports. It should meet the EC on its own terms in the areas of interest to the United States. By this I mean that the United States should consider greater amounts of export credits and possibly also some form of export restitution of its own on a selective basis.

I cannot let this opportunity pass by without calling attention to the United States' action in the export markets, for it is itself at least partly to blame for what is transpiring. The United States has hardly pursued a consistent trade policy during the period of time I have been in agriculture, and probably well before that time. It has changed its positions so frequently it leaves even U.S. participants confused, not to mention its trading partners. It has been inconsistent with the Community. It has itself chosen not to export through its imposition of export embargoes, forcing those denied the U.S. grains to seek their ex-

ports from other sources. This has served as a further stimulus to the EC to increase its production--or at least its exports--to the Eastern Bloc countries. And there is no bigger incentive to increase production than reduction of stocks. There are those in Europe who might say--and certainly not without some justification--that the United States has simply handed over its markets to its competitors. It is already long past the time when the United States should have had a commercial agricultural export policy, one based on economics and not on politics. The United States pursuit of politics in its agricultural exports has dealt U.S. agriculture a terrible blow, and a continuation of such a policy could cause it to deteriorate even further.

It should not go without notice that in the 1970's U.S. agriculture was supported by its export markets, which means that U.S. domestic consumption was indirectly subsidized by the export markets.

STATEMENT OF DANIEL E. SHAUGHNESSY
PRESIDENT, EXPORT PROCESSING INDUSTRY COALITION

Mr. Chairman, other members of the Committee, I am President of the Export Processing Industry Coalition, a unique combination of organizations involved in the export of processed agricultural products. Our Coalition consists of major trade associations representing processors in the corn refining, flour milling and soybean processing industries, as well as the Industrial Union Department of the AFL-CIO. Our primary objective is to increase the share of processed products in U.S. agricultural exports, in order that the United States can realize the many value-added benefits accruing from such exports, particularly in the areas of strengthened economic activity and employment. Of particular importance in pursuing this objective is our support of actions to eliminate unfair trade practices affecting these exports.

Many of the witnesses at this hearing have clearly described the strong concern that exists over possible action by the European Community to limit imports of corn gluten feed and to tax fats and oils. We agree wholly with those concerns. Not only are grain and soybean products an essential part of a multi-billion dollar export market for the United States, but also, we are dealing with processing industries which employ tens of thousands of workers and which affect the livelihood of countless others in related occupations such as in the domestic transport, storage and handling, export shipping and farm production sectors.

These facts and figures are impressive; but equally important is the fact that any European Community action to limit the import of these products is a clear violation of existing international agreements relating to the trade and movement of these commodities. For the United States to accept any Common Market action which would limit U.S. exports of these products and thereby damage our badly needed market opportunities, would put

the United States in the position of acquiescing to a violation of these agreements and, at the same time, paying the cost of the Community's Common Agricultural Policy. We would find ourselves in the position of exporting the jobs and employment opportunities that are dependent upon those processing industries rather than high value processed products. Often, I think we may tend to overlook the fact that when dealing with a complex trade issue such as this, we are not just dealing with questions of tariff regulations, GATT rules, quota restrictions, etc.--but also, that we are talking about personal livelihood, our income and jobs, improved economic conditions and revenue earnings for our government. For example:

-- If an additional 10% of the $8.6 billion worth of corn which was exported in 1980 had been processed into wet milling products for export, there could have been as much as $7.645 billion business activity and a $1.695 billion increase in personal income.

-- The U.S. exported $5.9 billion worth of soybeans in 1980. If means were found to export only 10 percent of those soybeans in the form of processed products, it would expand business activity by $1.646 billion, create 28,320 more jobs and increase personal income by $253.7 million.

Mr. Chairman, those of us in the Export Processing Industry Coalition are primarily interested in a fair opportunity for our processed agricultural products to compete equally in international trade and export activities. The efficiency of the American farmer, the competence of our agricultural processing industry, and the immense contribution of American labor in that industry, allows us to be more than willing to compete in international agricultural markets. But when those markets and the economic and employment benefits which they produce, are threatened by possible violations of international agreements or other actions which attempt to shift the cost and responsibility for European farm policy decisions to the United States, then we believe that it is clearly time to demonstrate that such actions will not be tolerated. In this regard, we would call to the Committee's attention the recently introduced Senate Resolution 233, by Senators Dixon and Helms, and House Resolution 322, by Congressmen Durbin and Madigan, and a number of their colleagues. We strongly support these resolutions which call upon the President to vigorously oppose any EEC action that would threaten our export markets in these agricultural products.

Mr. Chairman, the American farmer, the United States' food processing industry and the organized labor which participates in that industry are extremely dependent on exports. While the members of our Coalition fully recognize the complexity of today's international trade situation, we are also very concerned about the effects of this situation on U.S. employment opportunities and our economic well-being. We, therefore, commend this committee for its foresight in holding these hearings and for its continuing efforts to protect U.S. interests in the field of inter-

national agricultural trade. We stand ready to provide any further information or assistance that may be helpful.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

Farm Bureau appreciates this opportunity to comment on the agricultural trade problems existing between the European common market and the United States. Mr. Chairman, the seriousness of these trade problems is well known to this subcommittee.

While the trade problems with the E.C. have been accentuated by the worldwide economic recession and the relationship of the U.S. dollar to other currencies, the basic U.S./E.C. trade problems remain. The U.S. farmer through the years has seen levies and other E.C. restrictions curtail or virtually eliminate his market for some agricultural exports to the E.C. and then too he has had to face subsidized E.C. competition in third country markets.

Farm Bureau supports the principles of the General Agreement on Tariffs and Trade (GATT) and encourage trade conducted in accordance with the GATT.

In good faith, and with Farm Bureau support, our Congress endorsed the results of the "Tokyo Round", and they are included in our Trade Agreements Act of 1979.

This acceptance was based on confidence that other membernations, including those of the European Community, would abide by these agreed-upon trading rules. We have been forced to question whether or not our confidence has been misplaced.

Many of our people are discouraged to see efforts made to undo zero duty bindings and to capture markets from traditional suppliers by extensive use of export subsidies which are granted in a manner never envisioned under the subsidies code. These trading issues are placing our trading relations under severe stress. Everywhere there are signs of rising protectionism, both in our country and around the world.

Hunger that prevailed in Europe during the following World War II could understandably be used to argue for self sufficiency in European agriculture. However, through the use of farm price supports at above market levels, Europe has built a program of self sufficiency into what some have described as a "subsidized export machine". Certainly, the E.C. has moved into leading export roles in international trade by means of both production and export subsidies.

The Community is now challenging Australia as the third largest exporter of wheat. It is the largest exporter of poultry with 44 percent of the world trade in whole chickens. The Community is the second largest exporter of beef and veal and closing rapidly on Australia, the number one supplier.

These rapid changes from importer, to self sufficiency, to exporter have been achieved through the use of high internal price supports and export subsidies. This relieves the E.C. of its agricultural surpluses at the expense of other countries that have traditionally supplied export markets. The E.C. is exporting its surpluses while we must resort to production adjustments.

American farmers now hear that the E.C. Commission proposals for reform of the Common Agricultural policy includes three that will adversely affect their incomes.

These proposals are:

(1) The imposition of a consumption tax on fats and oils;
(2) restrictions on the import of non-grain feed ingredients, such as corn gluten and citrus pellets; and
(3) a coordinated export strategy.

The proposed fats and oils consumption tax, which would apply to all fats and oils other than butter, is designed to give added protection to the Community olive oil and dairy sectors and yield additional revenue for the support of the CAP. As we understand it, the amount of the proposed tax has been set by the Commission at about $65 per metric ton. The E.C. imports 80 percent of the fats and oils it consumes, most in the form of soybeans, including about $4 billion in oilseed and products annually from the U.S.

The restrictions on non-grain feed ingedients such as corn gluten feed and citrus pellets would be in the form of either quotas or duty increases. The U.S. exports about $700 million worth of non-grain feed ingredients to the E.C. annually.

We have heard few details about the proposed new E.C. export strategy, but we understand that it does specifically recommend the negotiation of long-term contracts with developing countries, particularly in the Middle East and North Africa.

The United States made valuable trade concessions to the European Community during previous rounds of GATT negotiations and, in effect, those concessions "paid" for these zero bindings on corn gluten and soybeans. Any serious threat to these duty-free bindings would strike at the very heart of our trading relationship with the Community and should bring swift retaliation by the United States.

We must emphasize that the soybean issue, more than any other, has the greatest potential for seriously undermining trade foundations with the Community.

As with soybeans, there is also recognition in the United States that the zero-duty binding on corn gluten feed was "paid for" with U.S. counter concessions in previous negotiation rounds. Consequently, Congress in previous resolutions has asked President Reagan to notify the E.C. that this binding is not

negotiable and that appropriate retaliatory steps be implemented should restrictions be placed on corn gluten.

Some have suggested that we now are on the brink of a global trade war; a war none of us want, none of us can afford, and which would produce only losers. Certainly, the subsidy issue and the threat to undo zero-duty bindings are placing great strain on normal trade relations at a time when economic conditions in the United States are far from normal. U.S. farmers are greatly upset over economic community efforts to capture markets from traditional suppliers by extensive use of export subsidies.

Trade built on sound economic principles, involving comparative advantage, permits all consumers to mutually benefit. Trade based on political objectives results in misallocation of productive resources and trade distortions such as those resulting from E.C. export subsidies.

Last year, our Farm Bureau House of Delegates broke with the past when it endorsed retaliation, if necessary, against those nations which subsidize exports to capture world markets. Subsidy actions of the European Community were specifically mentioned.

The Farm Bureau delegates said that "appropriate measures" should be used to send a clear message to the international community and that the United States will no longer tolerate trade subsidies.

As this Committee knows, farm groups are being asked to support protectionist legislation.

The lack of progress with the E.C. trade problems makes it more difficult for U.S. farmers and their representatives to continue our opposition to protectionist measures. If the E.C. follows through now with the Commission proposal, undoing the zero-duty bindings coupled with agressive export practices, the arguments of protectionists will seem more logical to those who have resisted them.

Mr. Chairman, this spring Sir Roy Denman, in a letter to The Washington Post, attempted to justify E.C. farm subsidies.

In essence, he said that both the E.C. and the U.S. has farm subsidies; so what is all the fuss about? We maintain that there is a significant difference in the way they are handled. Under the E.C. system domestic market prices are held well above world market levels, attracting more than enough to satisfy their domestic demand. Then surplus production is unloaded through the use of export subsidies on the world market, thereby distorting world trade.

This has caused the U.S. farmer, who wants his income from the marketplace, to be relegated to acceptance of PIK commodities and other production adjustment programs.

Senator Mattingly answered Mr. Denman's article in The Washington Post with a piece giving the thinking of most U.S. farmers. The Post responded with an editorial stating that "this time the U.S. is right".

Mr. Chairman, I am furnishing copies to the Committee of these three Post articles, and I hope they can be printed into the record with our statement.

Farm Bureau vigorously supports the efforts of the Congress and the administration to gain resolution to the trade problems that we are experiencing with the European Community. We hope that they can be resolved without having to resort to the practice of "fighting subsidies with subsidies". However, we cannot permit our export markets to be eroded and continue to absorb production adjustment while others increase their exports.

We must be competitive on world markets not only in price but also in export financing. We would like to achieve this through market forces. But if others will not play by free market rules and insist on gaining markets through price or credit subsidies, then we must meet the "brand" of competition.

We believe that we would be further ahead five years from now in world markets if we were to shift a substantial portion of domestic farm expenditures to an effort that would make us truly competitive in world markets.

We are asking ourselves this question, and we believe it is also a good one for our government.

Mr. Chairman, again we appreciate this opportunity to express our views to you and your colleagues.

STATEMENT OF UNILEVER UNITED STATES, INC., NEW YORK, NY

Unilever United States, Inc. appreciates the opportunity to submit a statement to the Subcommittee for inclusion in the record of today's hearing on the proposal of the European Commission that the European Economic Community (E.E.C.) impose a tax on edible oils and fats, excluding butter.

Unilever United States, Inc. is a member of the Unilever group of companies which employ approximately 280,000 people in 75 countries. Unilever businesses in the United States include Lever Brothers Company, Thomas J. Lipton, Inc. and National Starch and Chemical Corp. These companies manufacture and market brand name foods and food ingredients in addition to household and industrial products. In particular, Lever and Lipton use a large volume of U.S. edible oils for the production of margarines and salad dressings.

As companies with substantial agricultural and international interests, we have traditionally supported an open trading

system. We are deeply concerned about the potential threat to free trade posed by the proposed E.E.C. tax on edible oils and fats.

The tax is part of a larger plan of reforms to control spending for the E.E.C. farm program. While this objective is laudable, the edible oils and fats tax would effectively eliminate the zero binding on U.S. exports of soybean products to the E.E.C., and thereby discourage European purchase of such exports. Moreover, it would transfer a portion of the financial responsibility for European farm supports to foreign producers and consumers.

We are encouraged that the Congress has taken steps to express its concern about the tax proposal. Senate and House hearings; the introduction of resolutions in both chambers (S. Res. 233 and H. Res. 322); and the bipartisan letter to U.S. Trade Representative William Brock signed by all of the members of the Agriculture Committee are evidence of this concern. They will send a strong signal to the E.E.C. Council of Ministers that the tax is unacceptable.

Unfortunately, if enacted, the tax proposal would be only the latest in a series of protectionist measures involving agricultural trade. It would hurt not only U.S. exports but also those of many other countries which export vegetable oils. Therefore, in addition to adversely affecting U.S.-E.E.C. trade relations--and prompting a retaliatory response from the U.S., it would provoke a further deterioration in the international trading climate worldwide.

An additional demonstration of congressional support for U.S. opposition to the tax would be very helpful. Swift approval of S. Res. 233 by the Senate would be particularly timely because the Council of Ministers could informally agree to the tax well in advance of the formal vote that is expected late this year or in early 1984.

We urge your Subcommittee to encourage Senate action on the resolution, and commend you for the steps you have already taken to counter the potential threat to free trade that the tax represents.

STATEMENT OF BRIAN F. PETERSON, CHAIRMAN,
PROCESSORS COMMITTEE, NATIONAL SUNFLOWER ASSOCIATION

Mr. Chairman, members of the subcommittee, I appreciate this opportunity to discuss with you the anticipated impact of the proposed EEC vegetable oil tax on the sunflower seed industry in the United States.

My name is Brian Peterson. I am representing the National Committee. I am also Merchandising Manager for the Archer Daniels Midland Company sunflower seed crusing plant in Red Wing, Minnesota.

The National Sunflower Association is a producer and industry supported commodity association and is a cooperator with the Foreign Agricutural Service. The NSA represents 15,000 sunflower growers and 100 allied industry members throughout the United States. Its members produce 90% of the sunflowers grown in the United States and 95% of the total United States sunflower oil and meal. The Association promotes the development of markets for sunflower seed and products at home and abroad. The Association is unique in its broad coalition of producers and industry.

To describe the potential impact of the proposed EEC tax, I should give a brief background on our industry and where we are today.

United States sunflower seed production and processing is concentrated in the upper midwest states of Minnesota, North Dakota and South Dakota. The United States' crop first become commercially significant in the mid 1960's. Production quickly expanded, peaking in 1979/1980 with a crop of 3,400,000 metric tons. For the crop year that just ended, 1982/1983, sunflower seed production in the United States was 2,600,000 metric tons making the United States the second largest producer after the Soviet Union. The United States producers supply 15% of total world production.

Sunflowers have become a very significant alternative crop for upper midwest farmers. It should be emphasized that sunflowers are a cash crop. In the current crop year 2,100,000 acres were planted with sunflowers. These acres require no government outlays for PIK, loans or target prices.

As the acreage base grew, industry responded to a need by building plants to process the sunflower crops. During 1981 and 1982 three crushing plants were built in the production area. These three new plants represent capital investment of $140,000,000.00. Today there are five plants--two in Minnesota and three in North Dakota--which crush sunflower seeds for meal and oil.

Sunflower oil is a preferred vegetable oil in many parts of the world. The sunflower industry in the United States has grown in response to world demand. The United States producers and processors are heavily dependent on export markets to sell their production. For the crop years 1977/1978 through 1982/1983 sunflower seed exports from the United States as a percent of United States production have ranged from 86% to 56%. For this same period the United States processor has exported 68% of his production of sunflower oil. Sunflower oil trades in world markets and in many applications is interchangeable with competing vegetable oils.

The European Community has been a significant market for United States sunflower seed. For the period of September 1982-May 1983, 48% of United States sunflower seed exports moved to the EEC. For the comparable period a year earlier, the EEC took 38% of United States exports.

The EEC is not a market for United States sunflower oil. It imposes a 10% duty on imported sunflower oil which effectively keeps us from being competitive within the EEC. The United States sunflower oil that goes to Rotterdam is generally transhipped to destinations outside of the EEC. The principal export makets for the United States sunflower oil have recently been Algeria, Egypt, Japan, Mexico and Venezuela.

As I have shown, the United States sunflower industry is a young industry that has grown rapidly in response to world demand. It is heavily dependent on exports. It was thought to have a bright future but that future has become clouded. The main reason is the illegal subsidies granted to the Argentine crushing industry via the mechanism of differential export taxes. This subsidy amounts to $26.00/metric ton of sunflower seed and is responsible for some alarming trends in the United States sunflower industry.

The illegal subsidy is responsible for 95% of the Argentine crop being processed domestically while only 30% of United States production is processed domestically. During the 1982/1983 crop year, although the United States produced more sunflower seed than Argentina, the Argentine crushing industry crushed 2 1/2 times as much sunflower seed as we crushed. The subsidy is causing United States industry to lose market share. World imports of sun oil increased 56% between 1977/1978 and 1982/1983. Exports by United States crushers accounted for less than 17% of that increase. Increased Argentine exports represented 78% of the growth in trade during this period. Much of the Argentine growth has occurred in the last two marketing years. In contrast, United States exports have declined in the most recent two year period. Crushing capacity utilization in the United States was 50% for the crop year just ended and is projected to be substantially less in the current year.

Total sunflower seed production in Argentina will surpass that of the United States during the current crop year for the first time since 1977/1978.

In response to these dangerous trends, on September 28, the National Sunflower Association filed a Section 301 petition with the office of the United States Trade Representative specifically requesting the illegal subsidies in Argentina be stopped.

The preceding information has been an effort to provide the context in which the National Sunflower Association views the proposed EEC consumpti a tax in vegetable oils. This tax, if enacted, would seriously exacerbate a bad situation for the United States sunflower industry. Any action which adversely affects vegetable oil consumption in the EEC will directly affect United States sunflower seed exports to a major market. Any action which adversely affects vegetable oil consumption in the EEC, which would cause vegetable oil to be displaced from the EEC, would result in increased competition for the United States produced sun oil in third markets. As I have pointed out, our principal competitor in the world sun oil market enjoys substantial subsidies and our market share could fall even further.

If the proposed Consumption Tax is enacted we would expect United States sunflower seed exports to fall. We would expect increased competition in third markets for sun oil. The ability of the United States crusher to buy sunflower seeds would be adversely affected. Capacity utilization would even be lower. Downward pressure would be exerted on sunflower seed prices paid to United States farmers and the acreage base of this cash crop would be jeopardized.

The EEC must nnot be pemitted to shift even part of the financial burden of reforming its Common Agriculture Policy to the United States sunflower industry. We cannot bear it.

Our government must make certain that our strong opposition to the proposal is heard. We are encouraged by the efforts that have already been made. We would urge the unanimous approval of the September 29 Senate resolution calling for strong countermeasures should the Commission's proposals be adopted.

The United States government must continue to take a strong unified stand and be prepared to act to protect United States trade interests.

This concludes my statement. I would be happy to respond to any questions.

STATEMENT OF ROGER ASENDORF, FIRST VICE PRESIDENT
AMERICAN SOYBEAN ASSOCIATION

I am Roger Asendorf, a farmer from Minnesota where I produce soybeans and corn. I appear here today in my capacity as the First Vice-President of the American Soybean Association. ASA commends the Chairman for calling this hearing to investigate the proposed internal consumption tax on fats and oils by the European Community. We thank you.

The American Soybean Association is a national, volunteer, nonprofit, producer-controlled, single commodity association organized to assure the opportunity for a profitable soybean industry. ASA has more than 24,000 dues-paying members and is supported by over 450,000 soybean producers who voluntarily invest in ASA programs through 24 separate statewide soybean checkoff programs. ASA seeks to maintain soybean profitability through its foreign market development, research, producer and public information, and government relations programs.

The ten nations of the European Community (E.C.) collectively purchased 45.6% of total U.S. exports of soybeans and soybean meal in CY 1982. E.C. purchases of soybeans from the U.S. were valued at $2,961,100,000 while the value of meal imports from the U.S. was $902,986,000. The total value of $3,864,086,000 was more than 10% of total U.S. exports of all agricultural commodities during 1982. Soybean meal is used in the E.C. for livestock and poultry feeds. Soybeans imported into the E.C. are processed

there into soybean meal and soybean oil with the soybean oil primarily used for the production of margarine, salad oils, shortening and cooking oils. Some soybeans have been used in recent years for animal feed without the oil being extracted, but with the current high level of world oil prices such full-fat feeding of soybeans has practically ended.

The E.C. has evolved into the world's largest market for U.S. soybeans and soybean meal for two main reasons. First, the E.C. has been and still is highly deficient in vegetable protein for livestock and poultry feeds and in vegetable oil. Second, recognizing its protein and vegetable oil needs the E.C. agreed in negotiations with the U.S. in 1962 to bind in GATT its import duties for soybeans and soybean trade concessions to the E.C. At the same time the E.C. bound its soybean and soybean meal duties at zero it implemented its Common Agricultural Policy (CAP) which maintains high levels of support for commodities produced within the E.C. and applies variable levies to imports of grains.

Since 1962, E.C. agricultural production has risen dramatically. Yet, its production of proteins have not kept pace with growth in poultry and livestock production. Thus, demand for imported soybeans and soybean meal have grown greatly since 1962. With the E.C. now producing a surplus of milk, poultry and wheat, and with over two-thirds of the E.C. budget now allocated to farm supports, some within the E.C., particularly the French, have begun to blame duty free soybean and soybean meal for the failures of the CAP. They claim soybean meal displaces E.C.-produced grains even though soybean meal is a source of protein, not energy. They claim soybean oil displaces consumption of olive oil even though olive oil is not a desirable oil to North Europeans. Most important, critics claim consumption of soybean oil-based margarine is the reason for the E.C.'s butter surplus. Also, many blame the heavy use of relatively inexpensive soybean meal and imported cassava (tapioca) in Dutch and German dairy feeds to be a major reason for overproduction of dairy products. They see soybeans as the "hole in the dike" of the CAP and are out to close that hole. Unwilling to pay the compensation necessary to abrogate the zero bindings the soybean critics in the E.C. have sought some GATT-legal way of undermining those bindings.

The fats and oils tax is the method the E.C. has chosen to undermine the zero bindings. Under the proposal the E.C. would impose a tax of 7.5 E.C.U. (1 ECU = $.85) per 100 kgs of all fats and oils with the exception of butter. The tax would evidently be applied at the port of entry in the case of imported oils and fats, and at the internal processing facility in the case of soybean oil produced from imported soybeans. The tax would be refunded on oil exported from the E.C. At present exchanges rates, the tax would amount to $63 per ton of oil or fat, but under the dollar-ECU exchange rate that existed in 1981-1982, the tax would have amounted to $73.50 per ton. The E.C. has estimated the tax would bring in annual revenues of approximately 600 million ECUs ($510 million) for use in paying the overall cost of the CAP. Once imposed the tax could be increased at will in

future years with no assurance the tax rate would be equal for all oils and fats.

It is worth noting that not all nations within the E.C. favor the fats and oils tax. In particular, the Dutch and Germans have heretofore opposed the tax. Not only are most soybeans processed in Germany and the Netherlands, but also the livestock industries of those nations are heavily dependent on soybean meal for their livestock and poultry feeds. With little oilseed production of their own Germany and the Netherlands also are major consumers of soybean oil. Great Britain has also been a critic of the fats and oils tax because of its impact on taxpayers. France, Italy and Ireland have been the most vocal proponents of the tax. Since all E.C. nations have to approve the tax for it to take effect there is growing pressure on the Dutch, Germans and British to endorse the tax in order to achieve approval of the other CAP reform proposals which primarily impact France and Ireland.

ASA understandably views the tax with enormous concern and hopes the U.S. will oppose it with maximum resolve. We believe the tax has the following implications:

(1) The tax discriminates against lower-priced oils like soybean oil by increasing the consumer price by a higher percentage than for higher-priced oils such as olive oil.

(2) The tax would decrease the relative competitiveness of margarine with butter and reduce total soybean oil consumption within Europe. USDA economists have estimated a cut in E.C. soybean oil consumption of 85,000 mt to 150,000 mt with the majortiy of that oil being dumped on the world market in competition with U.S. soybean oil exports. The impact on the world soybean oil price is unclear but estimates by USDA economists indicate a 3% to 6% decline would occur.

(3) The value of soybeans to E.C. processors would be lower since the demand for soybean oil would be less. In order to make up the decline in value the processors would either have to pay less for imported soybeans or assign a higher value to soybean meal. If the former occurs U.S. farmers will receive less for the crop If the latter occurs soybean meal will become less competitive within the E.C. with other protein sources.

(4) With the expected accession of Spain and Portugal to the E.C. in future years there will be great pressure to increase the fats and oils tax on soybean oil in order to pay the costs of supporting the huge amounts of olive oil produced in those two nations. If the oils tax is ever allowed to be imposed we will be powerless in future years to prevent its increase. The threat of future discriminatory increases is actually much more important than the impact of the proposed tax.

(5) Imposition of the tax will effectively result in the U.S. soybean industry paying part of the cost of the CAP, including export subsidies on wheat, wheat flour, poultry and other commodities. By raising butter consumption it will reduce the cost of dairy supports at the expense of U.S. soybean producers.

(6) If the U.S. allows the tax to be imposed in the E.C. it will set a precedent which will be followed by other protein deficient but oil-surplus nations. The result will be a further decline in world vegetable oil prices and a reduction in the value of soybeans to U.S. producers.

(7) Imposition of the tax will mean nations will have carte blanche to use internal mechanisms to negate their GATT-bound import commitments. Such a process would effectively destroy the GATT and set in motion a dangerous rise in world trade protectionism.

(8) A decline in U.S. soybean prices caused by a decline in U.S. exports to the E.C. will have major repercussions within the U.S. If soybeans become less competitive with other crops, particularly corn and cotton, production of those crops will increase. The impact on the U.S. Treasury from such a crop production shift could be enormous.

In conclusion, Mr. Chairman, ASA believes it to be imperative the U.S. Government continue to strongly oppose the imposition of the fats and oils tax. We commend the Adminsitration for the strong interdepartmental unanimity with which it has opposed the tax. In particular, we appreciate the very strong statement of USDA Under Secretary Daniel Amstutz regarding the tax, when he recently spoke in London at an ASA-sponsored outlook conference. We also thank Senators Dixon, Helms and others who cosponsored the Senate resolution expressing opposition to the proposed fats and oils tax. If this tax is imposed it will be the "foot in the soybean door" the E.C. has long sought in order to negate its 1962 zero bindings. Those zero bindings are the largest single zero tariff binding the U.S. has ever achieved. If the E.C. is able to undermine that commitment it will not only mean enormous long-term losses to U.S. soybean farmers, but also the destruction of what remains of the GATT multilateral trade structure under which world trade has been governed since the end of World War II. The U.S. cannot afford to see the tax imposed.

Thank you.

STATEMENT OF RONALD L. ANDERSON, SENIOR VICE PRESIDENT AND GENERAL MANAGER, WORLD PROCESSING DIVISION, CONTINENTAL GRAIN COMPANY

As a member of the National Soybean Processors' Association, Continental Grain Company would like to add our support to the NSPA testimony given before your subcommittee Monday, October 17, 1983.

To quote that testimony, "the United States should not allow the Commission to shift the burdens of its problems from the EEC finance ministries to the soybean farmers and processors of America."

We further concur with the NSPA statement that "the U.S. government must exercise every available power to persuade the Community not to impose this proposed tax."

Continental Grain Company supports the efforts made by your committee and others in expressing the concern of the Congress over this issue, and we support the passage of Senate Resolution 233 urging the President to take strong counter-measures in the event that the Commission adopts the proposed trade restricting measures.

We request that this letter be made a part of the record.

STATEMENT OF THOMAS V. FISCHER, EXECUTIVE VICE PRESIDENT, A. E. STALEY MANUFACTURING COMPANY, DECATUR, ILLINOIS, ON BEHALF OF CORN REFINERS ASSOCIATION, INC.

Mr. Chairman, thank you for permitting me to appear before this committee. My name is Thomas V. Fischer. I am executive vice president of A. E. Staley Mfg. Company. It is my privilege to speak today on behalf of the Corn Refiners Association as well as the Staley Company.

The subject of this hearing is of vital importance to the entire U.S. corn refining industry. Our industry has long contributed to this nation's standard of living. Through the development and application of agri-technology, U.S. corn refiners have developed many new markets and new products--benefiting both the American farmer and consumer.

Corn refiners, including the Staley Company, produce corn syrups, dextrose, high fructose corn syrup, modified starches and power alcohol.

These products are vital to the nation's supply of food and beverages and to the production of textiles, fuel, pharmaceuticals and building materials. In manufacturing these products, the industry generates two important by-products of the wet milling process--corn oil and corn feed.

We appear before you today as a producer of corn oil and corn gluten feed but, in a larger sense, as a deeply concerned member of U.S. agribusiness. Our concern is prompted by the increasingly militant attitude of the European Community toward U.S. agricultural products in general and specifically EC threats to tax all edible oils and fats, excluding butter, and to put limitations on the import of corn gluten feed.

Other witnesses are planning to testify on the edible oil tax matter, and therefore I will concentrate my comments today on corn gluten feed.

Corn gluten feed is used primarily as a feed ingredient in cattle and swine rations and to a lesser extent in poultry breeder rations.

As a by-product of the corn wet milling process, corn gluten feed has increased in supply in direct relationship to the growth of the corn refining industry in this country.

Production of corn gluten feed has grown from 1.5 million metric tons in 1972 to 3.3 million tons last year, most of such growth being the result of increased high fructose syrup production. Practically all of the corn gluten feed today is exported to the European Community. In fact, the EC is approximately a $500 million a year market for U.S. corn gluten feed.

This fact clearly has triggered concerns, misconceptions and false conclusions in the EC regarding corn gluten feed. This afternoon I would like to address briefly several of the more widely held concerns and misguided remedies.

First, the idea persists in the EC that the U.S. corn refining industry is producing corn gluten feed as a primary product because of an attractive market in Europe. As I have already indicated, corn gluten feed is a by-product of the corn refining process, which is directed toward production of corn sweeteners, starches and power alcohol.

To illustrate, consider the current relative value of corn feed versus high fructose corn syrup on a per-bushel-of-corn

basis. The value of the high fructose corn syrup obtained from a bushel of corn today is $7.20 as compared to 98 cents for the value of the corn feed. In other words, high fructose corn syrup approximates 80 percent of the total value obtained from a bushel of corn, while corn gluten feed accounts for only 10 percent.

These economics clearly demonstrate that U.S. corn refiners do not process corn for the primary purpose of producing corn gluten feed for the European market.

A second misconception is that corn gluten feed imports into the EC could reach 10 million tons by the mid-'80s because of explosive growth of the corn refining industry in the United States. An often-cited reason for this projection is a major expansion of power alcohol capacity by U.S. corn refiners.

U.S. corn refiners do look forward to growth and progress but realistically it will not be of the magnitude to warrant European concerns for 10 million tons of corn gluten feed imports annually.

One must understand that the corn refining business is extremely capital intensive. Construction costs for a corn plant have more than doubled in the past decade. This fact alone reduces the likelihood of dramatic expansion in the future. In addition, high fructose corn syrup--the product principally responsible for the industry's growth in recent years--is reaching maturity.

Finally, the gasohol hype of the late 1970s now has been replaced by realism. In the late '70s, there was considerable publicity about power alcohol eventually replacing 10 percent of the nation's gasoline requirements. This was never realistic inasmuch as such a replacement would utilize over 4 billion bushels of corn annually--an impossibility in view of corn's importance in the food chain.

In the past few years, there have been several important changes affecting power alcohol. Reductions in the federal budget have removed a large part of the funds for developing the corn alcohol industry; petroleum prices have stabilized at lower levels; real interest rates have risen; and corn prices have been higher than expected due to weather-shortened crops. In short, the power alcohol industry simply has not developed as some enthusiasts predicted. At one point, several hundred alcohol plants supposedly were on the drawing board. Today, only a handful of them are operational. Of the few, only five are corn wet milling plants, producing power alcohol. At this time, there are no publicly announced plans for alcohol capacity expansion by the U.S. corn refining industry.

In 1981, Staley agricultural economist, Mr. Vernon McMinimy, testified on behalf of the Company before a Senate sub-committee hearing in Urbana, Illinois, on the same topic that brings us here today. At the time, Mr. McMinimy presented the Company's projection that U.S. corn gluten feed production would total 3.06 million tons in 1981; the final figure was 3.01 million tons. Production was predicted to reach 3.57 million tons in 1982; it actually fell slightly short of the mark, totaling 3.33 million tons. For 1983, production was projected at 3.86 million tons. Based upon performance to date, it appears the year will end at 3.83 million tons.

Corresponding to these figures, our forecast on corn gluten feed exports to the EC was 2.89 million tons in 1981; the final

number was 2.81 million tons. For 1982, we anticipated that EC exports would be 3.37 million tons; in fact, they totaled only 2.83 million tons. For 1983, the projected exports to the EC were for 3.65 million tons. At present rates, it appears the year-end figure will be 3.71 million tons.

As I am sure you will agree, these forecasts of two years ago have proved very accurate. It, therefore, would seem worthwhile to consider our projections regarding corn gluten feed and the EC for 1984 and 1985.

For 1984, the Company has revised its figures downward from previous estimates. We project corn gluten feed exports to the EC of some 3.8 million tons, essentially flat compared to this year's level. For 1985, the prospect is for a modest increase to approximately 4 million metric tons--a far cry from the often-mentioned 10 million tons that have so troubled the EC in recent years and apparently continue to be worrisome.

Mr. Chairman, complete data on the corn gluten feed records and projections to which I have referred are included in several exhibits that have been filed along with my full testimony.

The European Economic Community has no reason for alarm regarding a substantial increase in the imports of corn gluten feed in the next few years. This fact aside, I would suggest that this is not the crux of the problem.

Instead, attention should be focused on the Community's Common Agricultural Policy and its protectionist philosophy which makes the EC an attractive market for U.S. corn gluten feed.

The price of grain in the EC is artificially high compared to the U.S. and world prices. To ensure that their internal grain prices stay at or above the support levels, the EC requires that imported grain carry a levy equal to the difference between the world price and the EC support price. This levy system serves to restrict the imports of cheaper world grains, thereby protecting the internal price. Under GATT the levy system does not apply to corn gluten feed.

As a result, corn gluten feed is favored by European formula feed compounders and livestock feeders as an economical feed ingredient. U.S. corn gluten feed allows feed compounders in the EC to formulate less expensive animal and poultry rations without sacrificing nutritional value. Obviously, any restrictions on the imports of corn gluten feed would be detrimental to the European feed compounders, livestock feeders and subsequently the Community's consumers.

If the EC policy of maintaining artificially high internal grain prices were to stop, the flow of corn gluten feed to Europe would be reduced as world price grains once again provided economical feed rations. This can be proven by reviewing the level of corn gluten feed imports as compared to the EC import price for corn against the price of corn in Chicago, converted from dollars to a European currency.

In 1974, this price difference for corn narrowed sufficiently to reduce the flow of corn gluten feed to the EC. In 1975, however, the EC once again artificially strengthened grain prices, relative to Chicago, and corn gluten feed imports increased accordingly.

Now the EC is threatening to abort a long-standing commitment made in earlier GATT negotiations to allow corn gluten feed to trade within the Community without restrictions.

Instead of facing the consequences of its own policy, the EC is seeking to avoid them by shifting the burden to U.S. agribusiness and the American farmer. If the EC is successful in efforts to shift some of the burden of its policies to the non-EC producers of corn gluten feed, there is little to keep it from doing the same thing to the non-EC producers of soybean meal and soybeans. The EC presently is a $3.7 billion market for U.S. soybeans and soybean meal.

Mr. Chairman, members of the committee, I hope that this time the United States government, U.S. agribusiness and the American farm community will have the resolve to say to the EC--"no more." We will not carry the burden of your policies; we will not allow you to ignore our "fair market" philosophy; we will not permit you to erect more artificial barriers that are damaging to the entire U.S. agricultural sector.

This hearing and others scheduled for later this month are encouraging signs that Congress is aroused and ready to respond to the inequitable actions currently being contemplated by the Community.

Too often in the past, hearings such as this one have ended without a strong statement or follow-up action. It appears this will not be the case this time. As you know, Mr. Chairman, Senate Resolution 233--initiated by Senators Dixon and Helms--addresses the EC problems that we are discussing today. A similar resolution has been introduced in the House. The U.S. corn refining industry applauds these resolutions and encourages their support. Further, we would encourage the Congress to request that USDA and the Administration formulate a specific plan of retaliation if the EC persists on its present course. And--to have the resolve to carry out the actions if necessary.

We fully realize that these are stern measures and that the consequences would be significant, but the time has come for U.S. agriculture to stand firm. Only with firmness can we demonstrate our dissatisfaction with the EC and other foreign governments who erect trade barriers, pursue inequitable subsidization programs and foster the dumping of products in the world market.

U.S. agribusiness and the American farmer still are the most efficient and prolific producers of feed grains and oil seed products in the world. All we seek is an equitable environment in which to compete.

Thank you again for allowing me to appear before you today. I will be pleased to answer any questions you may have.

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U.S. CORN GLUTEN FEED
PRODUCTION/USAGE

	Production	Domestic Usage	Exports(2	Exports to EC
		mil. metric tons		
1972	1.51	80	.71	.69
1973	1.61	.81	.80	.78
1974	1.64	1.17	.64	.63
1975	1.86	.98	.88	.83
1976	1.93	.89	1.04	1.01
1977	2.03	.61	1.42	1.39
1978	2.24	.57	1.67	1.64
1979	2.49	.49	2.00	1.98
1980	2.80	.26	2.54	2.52

	1981 Proj.	Actual	1981 Proj.	Actual	1981 Proj.	(2) Actual	1981 Proj.	Actual
1981	3.06	3.01	.15	.18	2.91	2.83	2.89	2.81
1982	3.57	3.33	.18	.48	3.39	2.85	3.37	2.83
1983	3.86	3.83*	.19	.10*	3.67	3.73*	3.65	3.71*
1984	4.17	4.06**	.21	.20**	3.96	3.86**	3.94	3.84**
1985	4.52	4.26**	.23	.20**	4.29	4.06**	4.27	4.04**

1) Wet millers production from CRA report plus estimated production from non-reporting firms.

2) Census class corn feed and meal.

* Estimate

** Projection

CORN AND CORN GLUTEN FEED PRICES

Average $/MT

Calendar Year	EC effective Import Price for Corn	Chicago No. 2 Yellow	U.S. f.o.b. Corn Gluten Feed	
1972	110.44	49.21	67.60	
1973	136.33	86.12	107.28	
1974	153.20	126.44	114.17	
1975	165.54	113.74	111.03	
1976	174.89	106.10	127.86	
1977	261.52	86.97	133.39	
1978	236.31	90.94	135.26	
1979	257.71	104.00	163.15	
1980	275.86	118.46	169.04	
1981	231.64	124.30	177.75	
1982	226.60	100.52	168.42	
		Hfl per MT		EC Import Price for corn less Chgo. No. 2 yellow U.S.
1972	339.4	151.2	207.8	188.2
1973	380.6	240.4	299.5	190.2
1974	411.2	339.4	306.4	71.8
1975	418.3	287.4	280.6	130.9
1976	462.8	280.7	338.3	182.1
1977	640.0	213.2	326.9	426.8
1978	510.2	196.3	292.0	313.9
1979	515.2	207.9	326.1	307.3
1980	545.9	234.4	334.5	311.5
1981	575.8	309.0	441.8	266.8
1982	603.2	267.6	448.4	335.6

Projected Fuel Alcohol
Production and Feed
by-products

	Wet Milling			Mash Fermenters	
	mil. gal. yr.	mil. bu. yr.	000 metric tons CGF	mil. gal. yr.	000 metric tons DDGS
1980	80	32	185	-	-
1981	71	28	165	10	32
1982	165	66	382	30	98
1983 est.	250	100	580	100	326
PROJECTION					
1984	260	104	605	120	390
1985	275	110	640	140	455

STATEMENT OF BOBBY F. MCKOWN,
EXECUTIVE VICE PRESIDENT, FLORIDA CITRUS MUTUAL

My name is Bobby F. McKown. I am Executive Vice President and General Manager of Florida Citrus Mutual, a voluntary cooperative association whose active membership consists of more than 13,339 active Florida citrus growers with headquarters at 302 S. Massachusetts Avenue, P.O. Box 89, Lakeland, Florida 33802. I speak on behalf of Florida Citrus Mutual, Florida Citrus Processors Association and the Florida Department of Citrus.

These comments are submitted for your consideration in connection with your review of the proposals of the Commission of the European Communities to restrict or otherwise adversely affect imports from the United States of non-grain feed ingredients including citrus pellets. Appended hereto are descriptive summaries of each of the bodies which support the comments in this submission. The citrus grower and processor members of this coalition are engaged in the production of citrus pulp pellets, used as a high carbohydrate feed, and which is a by-product of juice production engaged in by the Florida, Texas, and other citrus industries.

We are greatly concerned about and strongly opposed to the recent proposals of the Commission of the European Community, in connection with reform measures for the E.C.'s Common Agricultural Policy (CAP), to impose an internal consumption tax on fats and oils, other than butter, and to restrict the importation of non-grain feed ingredients, such as corn gluten feed and citrus pellets. While no U.S. legislation is presently under consideration, since the E.C. proposals are not completed, we support the Committee's efforts to develop a clear record of the damaging impact such proposals would have on U.S. agricultural and trade relations between the U.S. and the E.C. We also support the U.S. Department of Agriculture and the U.S. Trade Representative in their efforts to discourage the E.C.'s adoption of restrictive, and possibly, GATT-violative trade measures, in an attempt to shift the burden of the CAP's financial problems.

The citrus industry is an extremely important segment of Florida's economy, accounting for over 30 percent of the $4 billion of Florida farm-gate receipts in 1981. There are an estimated 16,000 citrus growers in Florida, representing almost 20 percent of the 86,000-plus people directly employed in the Florida citrus industry in jobs ranging from harvesting to research.

Citrus pulp pellets have developed over the last ten to fifteen years as a major alternative feed source due to the high, supported prices in the E.C. for feed grains. Along with such substitutes as corn gluten and soybean meal, citrus pulp pellets are used in the E.C. in increasing quantities. In the 1983/84 year, it is estimated that in excess of $100 million of citrus pellets from Florida will be exported to the E.C. It is estimated that, overall, approximately $700 million worth of U.S. non-grain feed substitutes are exported to the E.C., and would be directly affected by any proposed E.C. import restrictions.

Attachment A demonstrates the growth of citrus pulp production in Florida since the 1977/78 season. Although some recent declines in production were evident, due to unusual consecutive freezes, the amount of citrus pulp processed has reached substantial levels. This has been accompanied by an increased European demand for citrus pellets as a stock feed source, and Attachment B illustrates the growth in E.C. export volume over the last ten years. Recovery of the Florida industry from the recent freezes will result in further growth in this export market to meet the increased European demand. The volume of exports has increased from 18% of Florida production in the 1972-73 season to 78% of production in the 1982-83 season. In addition, some 90% of the Texas production of citrus pulp pellets is exported to the European Community, and the same export/domestic marketing relationship

applies to the Texas citrus pellet production as to Florida. The U.S. industry is neither government subsidized nor price-supported. It is obvious that the export market, and especially the European Community, is essential to the welfare of this industry, and contributes significantly to the United States balance of payments.

The E.C. is now considering reforms in its Common Agricultural Policy which may include duty increases or quantitative restrictions on imports of citrus pulp, as well as other non-grain feed ingredients. We understand the intent of this proposal is to eliminate the E.C.'s existing system of price supports, bring E.C. prices more in line with world market levels, and eliminate E.C. export subsidies which are relied upon to dispose of production surpluses stimulated by CAP programs. The dubious benefits to be gained by the E.C. through such restrictions place the burden directly on Florida and other U.S. producers of citrus pulp and non-grain feeds, and threaten to disrupt internal U.S. markets as well, as citrus pellets production searches for alternative markets after having built to substantial levels im meeting the overseas demand.

Apart from the policy rationales for the CAP proposal, we feel that unilateral import restrictions of the kind being considered by the E.C. may violate the General Agreement on Tariffs and Trade, and the tariff bindings undertaken by the E.C. during multilateral trade negotiations. At the time of the Tokyo Round, a zero-duty rate was bound for non-grain feed articles (including citrus pulp) in exchange for tariff concessions by the United States on imports of other products from the E.C. The Florida citrus growers and processors have a right to rely on this binding. The Florida citrus growers and processors have moved to fill the market demand in Europe by expanding domestic capacity and production efforts, and have met the need of European livestock producers for reasonably priced non-grain feed substitutes.

While it is presently unclear what the legal basis might be for the E.C. action, the United States would certainly have recourse to equivalent value duty concessions or the withdrawal of offsetting tariff concessions in response to the E.C. action. If the E.C. proposal is undertaken pursuant to Article XXVIII of the GATT, the E.C. Council should be notified of U.S. intentions to demand negotiated equivalent value duty concessions for other articles, and absent any acceptable, negotiated solution, to withdraw unilaterally substantially equivalent trade concessions pursuant to Art. 28(3) of the GATT. If the E.C. proposal is undertaken pursuant to Article XIX*, the U.S. should also notify the E.C. of its intent to suspend substantially equivalent concessions on products of the E.C., pursuant to Art. 19(3), in the event that a negotiated settlement cannot be reached.

While alternative remedies might be available to the United States under section 301 of the Trade Act of 1974, we feel that unilateral, non-negotiated responses would be neither prudent nor effective in addressing the scope of this problem. The Florida citrus industry has supported and will continue to support free and fair trade concepts, and seeks only equitable treatment and multilateral adherence to fair trade principles and previously negotiated duty bindings. Retaliatory actions by any trading partner will not effectively resolve the serious threat the E.C. action poses to the U.S. citrus industry, but will simply result in further self-generative retaliation.

To this end, we support the principles and objectives expressed in H. Res. 322, that the Congress should express its sense to the President that

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*It seems doubtful that Art. XIX could be used as a basis for the E.C.'s withdrawal of concessions, since the action appears not to be intended to remedy injury to E.C. producers of like or directly competitive products, but rather to enhance the financial position of the CAP and control internal E.C. prices.

he should urge, and take whatever steps are available to encourage, the Council of European Community Ministers to reject the E.C. Commission proposals to shift to the United States the financial burden of disposing of E.C. agricultural surpluses, especially the burden on U.S. producers of citrus pulp pellets.

Florida Citrus Mutual is ready to assist and respond to any inquiries or questions from the Subcommittee and provide any further details in support of our position.

Respectfully submitted,

Bobby F. McKown
Executive Vice President
Florida Citrus Mutual

PULP FOR CATTLE FEED
FROM FLORIDA

	Tons Processed	Tons Exported EEC	FOB Price Per Ton
77/78	850,000	550,000	$ 68-83
78/79	800,000	579,027	85-111
79/80	1,092,428	798,139	106-114
80/81	989,637	625,432	113-119
81/82	724,000	483,000	91-105
			July '83 Price-$117

No tariff to EEC.

SHIPMENTS OF DRIED CITRUS PULP FROM FLORIDA

	Total Shipments (000 tons)	Exports* (000 tons)	Percentage Exported	Dollar Value (thousands)
72/73	768	141	18	$ 7,508.3
73/74	754	183	24	12,215.3
74/75	799	223	28	17,672.8
75/76	851	320	38	26,655.6
76/77	971	563	58	49,684.7
77/78	943	500	53	46,997.5
78/79	911	643	71	62,156.7
79/80	1,088	904	83	101,323.3
80/81	951	667	70	77,538.8
81/82	770**	549**	71	54,351.0
82/83	718**	563**	78	65,871.0

Source: Published data of the Florida Citrus Processors Association. Dollar values computed by Florida Citrus Mutual.

* Estimated to be in excess of 90% to the EEC.

** Reduced tonnage as a result of severe freezes in 1980 and 1981 which substantially reduced the citrus crop. With more normal crops expected in 1983-84 and future years, the tonnage of pulp is expected to increase substantially since the production of citrus pulp (shipped in pellet form to EEC) is directly related to crop size.

FLORIDA CITRUS MUTUAL

Florida Citrus Mutual is now in its 35th year as a Lakeland-based service and informational entity for more than 13,339 citrus grower members banded together as a voluntary cooperative nonprofit association.

Its operations cover a broad spectrum of activities, all interrelated and with one purpose in mind - representation of the best interests of grower members.

One of Mutual's main services is daily market information upon which the grower can make his decisions concerning the marketing of his fruit. Along with market information, routine activities range from consumer demand studies to efforts in seeing the development of the best possible advertising programs, improvement of quality of all citrus products, development of new products, maintenance of an adequate tariff structure, seeking standards of identity for citrus products, taking a direct hand in research and development of a workable mechanical harvesting system, achieving a theft and vandalism protection program and serving the growers' needs in such areas as environmental concerns, taxation, water management, property rights and development of new markets for citrus products.

Basically, Florida Citrus Mutual deals in all forces brought into play in the production, distribution and marketing of citrus and citrus products.

Florida Citrus Mutual is governed by a 21 member Board of Directors elected annually by the membership.

Mr. Bobby F. McKown
Executive Vice President
Florida Citrus Mutual
Post Office Box 89
Lakeland, Florida 33802
813/682-1111

FLORIDA CITRUS PROCESSORS ASSOCIATION

The Florida Citrus Processors Association is a voluntary trade association whose membership is comprised of 48 citrus processing firms which represent all major processing outlets located in Florida which produce frozen concentrated citrus juices and canned and refrigerated citrus juices and citrus fruits.

The members of the association, in utilizing 93% of the total Florida orange production and about 60% of the Florida grapefruit production, annually produce in excess of one billion single-strength equivalent gallons of 100% citrus juices.

Mr. Warren E. Savant
Executive Vice President
Florida Citrus Processors Ass'n
P. O. Box 780
Winter Haven, Florida 33880
813/293-4171

STATE OF FLORIDA, DEPARTMENT OF CITRUS

The Florida Department of Citrus, formerly known as the Florida Citrus Commission, is a full-fledged department of the Executive Branch of State Government. It was established in 1935 to stabilize and protect the Florida citrus industry. It is headed by a board of twelve growers appointed to staggered 3-year terms by the Governor and confirmed by the Florida Senate. This board is known as the Florida Citrus Commission.

The Department is charged with the administration of the state's citrus fruit laws and under those laws it has broad regulatory and police powers with respect to packing, processing, labeling, and quality standards, etc., of Florida citrus fruit and products, and the licensing of those who deal with them. Also, the Department conducts extensive advertising and promotion programs and carries on continuing broad-scale scientific, economic, and marketing research activities, all in behalf of the Florida citrus industry. Current annual expenditures are approximately $32,000,000 funded exclusively from special excise taxes assessed on each box of citrus grown in the State of Florida.

A primary concern of the Department is the protection and enhancement of the quality and reputation of Florida citrus fruit and products.

Dr. W. Bernard Lester
Executive Director
Florida Department of Citrus
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[The following was inserted at the request of Senator Dixon, see p. 12 for oral reference.]

[Reprint From the Wall Street Journal, Oct. 17, 1983]

U.S. Would Retaliate, Official Says, if the EC Blocks Farm Imports

Brussels, Belgium.—A senior U.S. official threatened unspecified retaliatory action if the Common Market goes ahead with a proposal to tax imports of all edible oils and fats except butter and to restrict imports of cereal substitutes.

Speaking to reporters at the end of a 12-day European trip, Daniel Amstutz, U.S. Undersecretary of Agriculture, said the U.S. "would have no alternative but to respond and impose countermeasures" if the Common Market approved the proposal, which is part of a general overhaul of the European Community's agricultural policy. The moves would raise revenue for the EC and boost demand for European farm goods.

The taxes and import restrictions wouldn't be specifically aimed at the U.S., but would affect nearly $5 billion a year of U.S. farm exports to the EC, the U.S. official said.

Mr. Amstutz added that the U.S. questions the concept of imposing a tax on imports for revenue-raising purposes. He said this could set a precedent that opens the way for further levies on imports in the future.

Speaking in more moderate language than that employed by U.S. agriculture and trade officials in recent months, he said the U.S. was "willing to talk," however, and hinted that solutions could be worked out.

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